FINANCIAL TIMES

World Business Newspaper — WEDNESDAY MAY 15 1996

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China and the US
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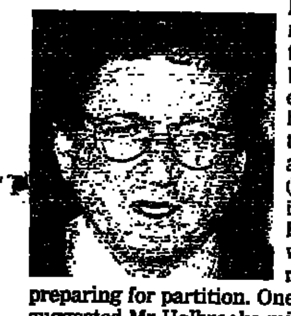
German bank plans new products for monetary union

Westdeutsche Landesbank, Germany's biggest public sector bank, will spend up to DM200m ($133m) developing new products in readiness for European monetary union. Despite uncertainties over whether Emu will start on time in 1999, the bank's chairman Friedel Neuber said: "We are assuming that the timetable will be met." The bank also plans further growth in its London-based investment banking activities. Page 15

Anger at Holbrooke's comments on Bosnia:



European Union foreign ministers reacted angrily to critical comments over Bosnia by former US envoy Richard Holbrooke, the chief architect of the Dayton peace accord. Mr Holbrooke (left), was quoted as saying that "important European officials" were writing off the vision of a re-integrated Bosnia and preparing for partition. One European official suggested Mr Holbrooke might be preparing to use the Europeans as scapegoats in the event of a breakdown in the Dayton agreement. Page 2

US trade war with China looms: The US will today release a list of $3bn worth of Chinese goods which are potential targets for import sanctions, moving closer to a trade war over alleged abuses of intellectual property rights in China. Page 14; Time to stop threats, Page 12

Tornado kills at least 440: A severe tornado lasting only a few minutes killed more than 400 people and injured over 32,000 in northern Bangladesh. The death toll is expected to rise.

Fight to win football World Cup TV rights: An impressive list of international broadcasting and marketing groups, including Walt Disney subsidiary Capital Cities/ABC and Rupert Murdoch's News Corporation, have lined up to bid for the world broadcasting rights for the football World Cup finals in 2002 and 2006 ahead of today's submission deadline. Page 4

AT&T, the largest US long distance phone operator, and Unisource, a consortium of European operators, agreed to merge most of their operations in Europe. The new group will be owned 60 per cent by Unisource and 40 per cent by AT&T. Page 15

BJP faces challenge: India's main "social justice", secular and regional parties set aside their differences to elect Deve Gowda, the Janata Dal chief minister of Karnataka, as prime ministerial candidate. It will allow them to make a late challenge to the Bharatiya Janata party's claim to form a government in New Delhi. Page 6

Hongkong Telecom profits rise: Hongkong Telecom increased net profits by more than 14 per cent to HK$9.94bn (US$1.3bn) for the year to the end of March, and gave an upbeat assessment of its prospects in the face of increasing competition. Page 15; Lex, Page 14

Pressure for US rate rise recedes: The chance of an early rise in US interest rates lessened after official reports signalled modest growth and little underlying upward pressure on inflation. Page 5

Allied Domecq, the international spirits and retailing group, reported a 20 per cent fall in interim pre-tax profits to £321m ($485m). Page 15; Lex, Page 14

Kuchma in tough stand on reforms: Ukrainian president Leonid Kuchma threatened cabinet ministers with dismissal if they stood in the way of market reforms. Page 3

Ghana admits refugees: Ghana reluctantly agreed to take in a Nigerian freighter carrying about 3,000 Liberian war refugees. Sierra Leone allowed another 1,000 refugees to land in Freetown after six days at sea with little food or water.

China's smoking ban begins: As China's ban on smoking in public places comes into effect in Beijing today, the authorities are far from persuading people to break the habit in a country which accounts for about 30 per cent of the world's total cigarette consumption. Page 6

Footballer found guilty over fatal crash: Dutch football international Patrick Kluivert was found guilty by an Amsterdam court of causing death by dangerous driving. The Ajax Amsterdam player was given a three-month jail term suspended for two years, ordered to do 240 hours of community service and banned from driving for 18 months after the crash in which one person died.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,609.19	(+26.59)
NASDAQ Composite	1,231.92	(+10.05)
Europe and Far East		
CAC40	2,122.08	(+21.23)
DAX	2,519.73	(+23.56)
FT-SE 100	3,769.7	(+20.5)
Nikkei	21,301.05	(+129.23)

US LUNCHTIME RATES

Federal Funds	5¼%	
3-mth Treas Bills: Yld	5.134%	
Long Bond	89½	
Yield	6.853%	

OTHER RATES

UK: 3-mo Interbank	6¼%	(same)
UK: 10 yr Gilt	98⅞	(98¼)
France: 10 yr OAT	105.74	(105.49)
Germany: 10 yr Bund	98.78	(98.30)
Japan: 10 yr JGB	97.0825	(97.3031)

NORTH SEA OIL (Argus)

Brent Dated	$19.59	(19.42)

GOLD

New York: Comex		
(Jun)	$392.9	(392.7)
London:		
close	$392.05	(391.4)

DOLLAR

New York: lunchtime		
£	1.515	
DM	1.53515	
FFr	5.1998	
SFr	1.252	
Y	105.985	
London:		
£	1.5153	(1.5141)
DM	1.5368	(1.5336)
FFr	5.1998	(5.1868)
SFr	1.2529	(1.2502)
Y	105.95	(104.97)

STERLING

DM	2.3287	(2.322)
Tokyo close:	Y 105.05	

Albania Lek 220	Germany DM4.00	Lithuania Lits 15.00	Qatar QR13.00
Austria Sch37	Greece Dr400	Lux LFr75	S.Arabia SR12
Bahrain Din1.250	Hong Kong HK$20	Malta Lm0.65	Singapore S$4.30
Belgium BFr75	Hungary Ft230	Morocco MDH16	Slovak Rp Sk65
Bulgaria Lv130.00	Iceland IKr230	Neth Fl 4.75	S. Africa R12.00
Cyprus C£1.20	India Rs75	Nigeria Naira50	Spain Pta250
Czech Rp Kc50	Israel Shk7.90	Norway NKr20.00	Sweden SKr20
Denmark DKr18	Italy L3200	Oman OR1.50	Switz SFr3.70
Egypt E£5.00	Japan Y500	Pakistan Rs40	Syria S£55.00
Estonia EKr 22	Jordan JD1.50	Poland Zl 5.50	Tunisia Din1.750
Finland FM15.50	Kuwait Fils.550	Portugal (mainland) Esc250	Turkey L80,000
France FFr11.50	Lebanon U$3.00	[illegible]	UAE Dh12.00

Drive for flexibility in European labour markets in run-up to Emu

Brussels looks to woo unions

By Bruce Clark and Gillian Tett

The European Commission is today expected to announce plans for more talks with trade unions in a fresh drive to gain their support for the economic reforms needed in the run-up to European monetary union.

The initiative comes as the Commission concedes in its half-yearly economic review that there is unlikely to be any significant fall in unemployment across the European Union in the next two years.

While Brussels is at pains to counter any suggestion that a single currency will cost jobs, its officials are aware that high unemployment could threaten support for the single currency project. They are keen to encourage more flexibility in European labour markets, including greater regional mobility, and the issue will be a focus for the meeting of EU finance ministers next month in Florence.

The Commission also hopes to pull the European Monetary Institute – the forerunner of the European Central Bank – into joint discussions with unions and other social groups for the first time.

The plans come as governments in some EU countries, such as Germany and Belgium, are locked in negotiations with unions over efforts to cut public spending to meet the single currency requirements

Germany's chancellor Helmut Kohl is due to make his first formal visit today to the European Union's headquarters since 1993, and is expected to stress Germany's keenness to see steady progress over monetary union.

Early drafts of the report, and its policy recommendations, have pointed out that the EU "finds itself with a dismal employment record" since its last major initiative to boost competitiveness 2½ years ago.

The final draft of the report, which has been subject to intense discussion in recent days, will be agreed by the EU commissioners today, together with the Commission's economic forecasts.

In line with most independent economists, the Commission is confident that growth will accelerate in the second half of this year. However, it does not think this will make a significant dent in the jobless total: it believes that unemployment is likely to remain over 18m next year, in line with current levels.

The Commission also admits that the pick up in growth is unlikely to be enough rapidly to reduce member states' budget deficits. Initial calculations by the Commission have suggested that France, Belgium and the UK will all fail to meet the Maastricht deficit criterion in 1997, and thus technically fail to qualify for a single currency.

These projections will be controversial and could be modified under pressure from member states when they are presented to finance ministers later.

Nevertheless, Commission officials are hoping to use these policy recommendations to introduce a more effective system of economic co-ordination and surveillance. Consequently, the Commission will demand in the coming weeks that countries present programmes showing how they intend to meet the Maastricht targets.

European monetary chief to retire in mid-1997

By Peter Norman in Bonn

Mr Alexandre Lamfalussy, the president of the European Monetary Institute and an important figure in preparations for European economic and monetary union, will retire in the middle of next year and is likely to be succeeded by Mr Wim Duisenberg, president of the Netherlands central bank.

The Frankfurt-based EMI announced yesterday that its council, consisting of Mr Lamfalussy and the heads of all EU central banks, unanimously recommended that European leaders should appoint the 60-year-old Mr Duisenberg to the EMI presidency from July 1 1997.

A supporter of German-style monetary policies, he has been more liberal than the Bundesbank in his approach to financial markets. He occupies a middle position in central banking philosophy between Mr Hans Tietmeyer, the Bundesbank's hard-line president, and Mr Eddie George, the more market-oriented governor of the Bank of England.

If appointed, and if Emu goes ahead as planned on January 1 1999, Mr Duisenberg will stand a good chance of being the first head of the independent European central bank (ECB) and hence one of Europe's most powerful economic policymakers. The ECB, also to be in Frankfurt, will replace the EMI when Emu starts and will take charge of the single monetary policy and interest rates of countries in the Emu area. Mr Lamfalussy, a sprightly 67-year-old Belgian baron, said yesterday that he was retiring from the EMI because of his age.

His three-year contract runs out at the end of this year but the EMI council agreed unanimously that he should stay until mid-1997, when Mr Duisenberg could take over.

Mr Duisenberg, the Dutch central bank head since 1982, was planning to quit his post after the Netherlands presidency of the European Union in the first half of next year. The Netherlands Bank said Mr Nout

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Holzmann move fuels talk of Babcock merger

By Michael Lindemann in Bonn

Philipp Holzmann, Germany's biggest construction group, yesterday appointed a new finance director from Deutsche Babcock, increasing speculation that it may merge with the struggling German engineering group.

The appointment of Mr Rainer Klee, finance director at Deutsche Babcock, comes as Holzmann faces a hostile takeover bid by its smaller rival Hochtief.

Mr Klee will replace Mr Michael Westphal, who was ousted after Holzmann reported 1995 net losses of DM442m ($290m). The losses were incurred after Holzmann overvalued several of its property projects.

Mr Klee's appointment has lent support to the idea that Holzmann will try to take over Babcock to create a larger power, construction and engineering group.

Such a group, publicly mooted earlier this year by Mr Heyo Schmiedeknecht, Deutsche Babcock's chief executive, would be likely to reduce the risk of hostile takeover because of its size.

The possibility of such a merger appeared to gain ground with analysts yesterday. "If you're planning on taking over Deutsche Babcock then it makes sense to first take over the finance director," one Frankfurt-based construction analyst said.

Hochtief yesterday declined to comment on events at Holzmann. In marked contrast to its larger rival, Hochtief last week reported net profits of DM137m for 1995.

Hochtief holds 24.9 per cent of Holzmann and has placed a further 10 per cent with Commerzbank, its house bank.

Germany's cartel office opened an inquiry on the possible takeover and subsequently took Hochtief to court alleging it had taken effective control of Holzmann through its share purchases. Both Hochtief and Holzmann are due to appear in court on November 6.

Holzmann has revalued its property portfolio so that it better reflects market prices, an exercise which has cost DM457m in provisions, write-downs and related losses.

But analysts said further losses could not be ruled out. A report by the consultancy KPMG Deutsche Treuhand, commissioned by Holzmann to review the valuations, had suggested the write-downs could range between DM296m and DM536m.

In an effort to stem losses, Holzmann said yesterday it would concentrate its domestic business on five branch offices and not the 10 it had been operating so far.

The various stakes that Holzmann has in construction companies in Germany and abroad would be consolidated into a smaller number of operating divisions.

Queen Elizabeth and Jacques Chirac ride in an open carriage on the first day of the French president's visit to Britain yesterday. His arrival coincided with discordant strains in the UK Conservative party about Europe Page 8; State of delusion, Page 12; Observer, Page 13 Picture: AP

Lisbon launches second offering in Portugal Telecom

By Peter Wise in Lisbon

Portugal's socialist government yesterday launched a secondary global offering of 22 per cent of Portugal Telecom, worth Es139bn ($885m) at current prices.

The sale, which is the first privatisation by the socialists since they took office six months ago, will reduce the state's holding in PT to 51 per cent following an initial public offer of 27 per cent in June 1995.

The offer will be concluded at a special session of the Lisbon stock exchange on June 11, and has been timed to avoid clashing with a global offer of Deutsche Telekom scheduled for November.

Soon after taking power, the government committed itself to privatise 22 companies within two years, a much more ambitious programme than that of the the previous centre-right administration.

Mr Antonio Guterres, the prime minister, told parliament early this year that privatisation would promote greater social justice, equality of opportunity and economic integration. This, rather than the size of the public sector, was today the true difference between left and right, he said. Some 60 per cent of the PT offer is to be sold directly to international institutional investors through a book-building system, and the shares will be quoted in Lisbon, London and New York.

The remaining 40 per cent will be sold to Portuguese investors through a public offer that involves discounts and tax incentives for small savers and PT employees. Merrill Lynch, SBC Warburg, Union Bank of Switzerland and Portugal's Banco Essi, the global co-ordinators of the 1995 offer, have been re-appointed for the secondary offering.

Shares in PT have risen by more than 21 per cent since they were offered at Es2,800 last June and analysts are expecting strong demand for the second phase.

The offer price is to be fixed on June 10, on the basis of demand through the book-building system and using the average share price during the first four months of 1996 as a reference. The price for small investors is to be capped at 5 per cent above the average market price over the offer period.

For the first time in Portugal, small investors will be able to

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EU-US strains show over Bosnia

By Bruce Clark in Brussels

The fragility of US-European co-operation in Bosnia has been highlighted by the angry reaction of European Union foreign ministers to a critical press comment by Mr Richard Holbrooke, chief architect of the Dayton peace accord.

Mr Holbrooke, till recently an assistant US secretary of state and now an investment banker, wrote in Time magazine that "important European officials" were writing off the vision of a reintegrated Bosnia and preparing for partition. He also asserted that the military parts of the Dayton agreement had been well implemented by the US-led Nato force, while the civilian aspects were less successful because of "messy, ineffective arrangements" insisted on by Europe.

A senior European diplomat said there had been "a lot of harrumphing" over the article at the EU foreign ministers' meeting this week, especially from representatives of Britain, France and Germany which co-sponsored the peace. European officials insisted that the EU was taking the lead in efforts to reintegrate Bosnia by working to promote more moderate forces in the Serb-held area and undermine the power of the hardline leader Mr Radovan Karadzic.

They added that blaming Europe for "messy arrangements" in implementing the accord was unfair: the UK, France and Germany had waged a hard struggle, in the teeth of US resistance, to secure a clear mandate for Mr Carl Bildt, head of the civilian part of the peace effort.

One official suggested that Mr Holbrooke might be preparing to use the Europeans as scapegoats in the event of a breakdown in the Dayton agreement. While European officials were careful to distinguish between Mr Holbrooke and US policy in general, the row was a reflection of the nervousness on both sides of the Atlantic about the prospects for the Bosnian peace process.

The process is entering one of its hardest phases as policy-makers try to reconcile the expediency of holding elections as soon as possible with the principle that refugees have the right of return. In the EU-administered city of Mostar, Moslems have complained that holding elections this month will simply consolidate the effects of the 1993 siege by Croat forces which forced many residents to flee.

Observers say the ability of any outside power to fine-tune events in Bosnia will be severely limited if the US acts on its promise to terminate its military presence at the end of the year, and Britain and France follow suit. Mr Hans van den Broek, EU commissioner, has incurred British, French and German wrath for suggesting the EU should send a force to Bosnia in 1997.

The wide range of views within the EU on defence co-operation was highlighted yesterday at a session of the intergovernmental conference on EU reform. The Italian presidency floated the idea that EU *foreign ministers' meetings* should sometimes be joined by the defence ministers from the 15 member states – a step that would be tantamount to giving the Union a military function.

However, Britain opposes this idea, as well as a suggestion from both Germany and Italy that the EU's role as a sponsor of peacekeeping and humanitarian task forces should be written into the Union's founding treaty. Another proposal for amending the treaty – to water down article 223 which effectively excludes arms sales and defence issues from EU business – was opposed by Britain and several other states.

The Council of Europe decided on yesterday to postpone Croatia's admission indefinitely, pending progress on democratic reforms in the former Yugoslav republic, Reuter reports from Strasbourg. It is the first time in the history of the 39-nation organisation, created in 1949 to promote democracy and human rights in Europe, that the Council has not immediately endorsed a favourable vote by its parliamentary assembly.

Dini bows out with spending cuts package

By Robert Graham in Rome

Italy's outgoing government has prepared a package of spending cuts and fiscal adjustments to hold the 1996 budget to its targeted deficit of 5.9 per cent of gross domestic product.

The package – finding some L12,000bn ($7.7bn) in spending cuts and fresh revenues – is ready to be introduced either by Mr Lamberto Dini in his final days as premier or by the incoming centre-left administration of Mr Romano Prodi.

Yesterday Mr Prodi met Mr Dini to decide which course to take. The centre-left Olive Tree alliance was anxious in the wake of the elections that Mr Dini carry out corrective measures to his 1996 budget, claiming the responsibility was his. However, Mr Dini was reluctant to act alone and the centre-left began to have second thoughts.

Mr Prodi, a Bologna economics professor, let it be known he would prefer to be able to link the package to the announcement of the next three-year macro-economic plan as part of the preparation for the 1997 budget. But this course risked losing as much as a month. Thus the discussion in recent days has focused on Mr Dini and his economics team both preparing and presenting the package.

The main emphasis will be on spending cuts – carefully selected to avoid antagonising the trade unions who are behind the incoming government. The axe is expected to fall mainly on transfers to the state railways, where some L2,000bn can be cut, in part through dexterous accounting on pension payments.

Other cuts will come in transfers to Sace, the export credit guarantee organisation, to Anas, the state road-building authority, and parliament's discretionary spending fund.

Parallel with this, a freeze is likely to be introduced on civil service and local government recruitment. Savings will also come from a campaign controlling invalid pension fraud.

On the revenue side, the government appears to have opted for the time-honoured emergency measures to find some L2,000bn. These will include raising taxes on green petroleum (not in the consumer price index), further taxes on the lottery, and yet another extension of a two-year-old tax amnesty.

This is especially important in north-east Italy, where businesses refused to take advantage of the amnesty as part of a broader protest against the poor value for taxes paid to the central government.

The same people are regarded as the core of the protest vote sympathising with the populist Northern League of Mr Umberto Bossi, who championed the secessionist card in the April elections.

The budget shortfall has been caused by over-optimistic projections on the trend in interest rates which has meant a higher than expected cost for the service of Italy's debt.

Revenue has also been affected by a slowdown in the economy, which is now likely to grow by less than 2 per cent against the 2.4 per cent projected.

WEST EUROPEAN NEW CAR REGISTRATIONS
January-April 1996

	Volume (Units)	Volume Change(%)	Share (%) Jan-April 96	Share (%) Jan-April 95
TOTAL MARKET	4,609,800	+7.2	100.0	100.0
MANUFACTURERS:				
Volkswagen group	[illegible]	+11.1	16.7	16.2
– Volkswagen	512,084	+13.9	11.1	10.5
– Audi	136,182	+4.4	3.0	3.0
– Seat	99,889	+6.8	2.2	2.2
– Skoda	23,573	+11.6	0.5	0.5
General Motors	588,225	+3.5	12.8	13.2
– Opel/Vauxhall	566,745	+4.1	12.3	12.6
– Saab	19,019	-7.6	0.4	0.5
Fiat group*	568,020	+13.1	12.3	11.7
– Fiat	450,409	+13.6	9.8	9.2
– Lancia	64,357	-0.1	1.4	1.5
– Alfa Romeo	52,688	+29.4	1.1	0.9
PSA Peugeot Citroen	554,219	+6.2	12.0	12.1
– Peugeot	332,344	+7.8	7.2	7.2
– Citroen	221,875	+4.0	4.8	5.0
Ford group	545,855	+6.7	11.8	11.9
– Ford	540,788	+6.9	11.7	11.8
– Jaguar	5,079	-7.8	0.1	0.1
Renault	457,202	-0.7	9.9	10.7
BMW group	271,843	+4.8	5.9	6.0
BMW	141,083	+0.2	3.1	3.2
Rover	130,760	+10.2	2.8	2.8
Mercedes-Benz	159,888	+13.1	3.5	3.3
Volvo	63,233	-22.2	1.4	1.9
Nissan	127,811	+3.8	2.8	2.9
Toyota	114,727	+2.0	2.5	2.6
Honda	71,331	+9.8	1.5	1.5
Mazda	63,069	-4.6	1.4	1.5
Mitsubishi	54,444	+24.4	1.2	1.0
Total Japanese	489,174	+5.5	10.6	10.8
Total Korean	80,576	+68.8	1.7	1.1
MARKETS:				
Germany	1,219,500	+8.4	26.5	26.6
United Kingdom	693,700	+4.5	15.0	15.4
France	737,100	+12.6	16.0	15.2
Italy	681,200	+1.4	14.8	15.6
Spain	300,100	+6.6	6.5	6.5

*VW holds 70 per cent and management control of Skoda.
#Includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.
Source : ACEA (European Automobile Manufacturers Association) estimates. Figures are rounded.

Car sales get help from the calendar

By John Griffiths

Western Europe's new car market rose 12.1 per cent last month year-on-year. But the European Automobile Manufacturers Association (ACEA) yesterday dashed hopes of a new sales recovery by attributing most of the increase to statistical anomalies.

Two extra selling days in April, compared with the same month a year ago, in some of Europe's biggest markets accounted for most of the increase, an ACEA spokesman said.

This meant that the 14.4 per cent increase in new car registrations (to 340,000 units) in Germany became around 4 per cent in real terms. Similarly, a 13 per cent rise in France (183,000 units) was reduced to around 3 per cent.

Even this gives a falsely optimistic picture of the French market according to ACEA. Some 29 per cent of April's registrations are considered to have been the result of government incentives to buy new cars. Without them, the French market would have slipped below 1995 levels.

A longer selling month also influenced a 17.1 per cent rise in the UK, although the 7 per cent real growth there was seen as a sign of returning confidence.

The ACEA's statistics showed mostly modest year-on-year registration increases in all 17 markets monitored.

The Volkswagen group reinforced its already clear market leadership, its 200,900 registrations representing a 17.6 per cent rise on the same month a year ago. General Motors retained second place with a 6.1 per cent rise, but its own lead over third-placed Fiat was sharply reduced by a 17.5 per cent jump in the Italian group's registrations.

Meanwhile the pace of Korean manufacturers' growth in western Europe's market slackened in April – but only to 45.8 per cent growth year on year, compared with 68.8 per cent for the first four months of the year as a whole.

Intelligence community fears return to suspicion and hostility of cold war era

Russia insists it will expel UK 'spies'

By Jimmy Burns in London and John Thornhill in Moscow

Russia's foreign ministry said yesterday that Moscow would stand by its decision to expel British diplomats caught up in a spying row amid growing signs that the intelligence world has returned to cold war levels of mutual suspicion and hostility.

Both the foreign ministry and its UK counterpart are still hoping that a diplomatic face-saving formula will be found to defuse the row. Instead of high profile tit-for-tat expulsions, officials on both sides had been considering a staggered replacement of a limited number of embassy staff on both sides over an extended period.

The fact that the dispute appears no closer to resolution is viewed by some as confirmation that a period of co-operation between Russian and western intelligence services has come to an end.

The private fears of western diplomats and intelligence officials was expressed yesterday by Dr Mark Galeotti, a leading Russian expert and professor of history at the University of Keele in the UK. "What is happening in Moscow is a symptom of the increasing tension between intelligence services. The honeymoon period of co-operation is definitely over and they are once again moving towards a position of diametrically opposed interests," he said.

In Moscow, foreign diplomats and academics report that contacts with government officials have become notably more frosty since the spy scandal broke. They say it is becoming increasingly difficult to distinguish between what they believe are legitimate inquiries and what Russian security services might construe as intelligence gathering.

At the same time, liaison between western intelligence services and their Russian counterparts in the SVR, which conducts espionage activities abroad, on issues of common concern have effectively been frozen.

Western intelligence officers have taken little comfort from what media reports have publicly conveyed as an apparent domestic conflict between the "liberal" Russian foreign ministry and the more "hardline" counter-intelligence service, the FSB. They are attaching much greater significance to the fact that they can no longer trust their counterparts, regardless of whether they are in the FSB or the SVR.

It is understood that the Russian foreign ministry official arrested last week in connection with the UK spy ring was part of an intelligence gathering operation which in a period of co-operation would not have been necessary.

In the aftermath of the cold war, western and intelligence agencies forged links on counter-terrorism, money laundering and nuclear proliferation.

At one point M16 and M15, respectively the UK's foreign and domestic intelligence services, were provided with detailed information about training and arming of the IRA for which the KGB had been partly responsible.

Western intelligence services now believe, however, that their Russian counterparts have shifted away from co-operation towards spying on technological and economic targets as well as on the activities of anti-Russian groups and governments in the former Soviet republics. As a result, spies on both sides believe that the best national interest lies in redirecting their activities against each other.

There could still be an ironical twist to the spy story if and when expulsions are announced. For those expelled may include intelligence officers on both sides who had been allowed in the postwar era to function with the tacit approval of their host country.

Stormy poll campaign breaks over the Rock

Gibraltarians face a stark choice when they vote in tomorrow's elections, writes **Tom Burns**

Mr Joe Bossano, the curmudgeonly chief minister of Gibraltar since 1988, does not mince words when he asks the Rock's 18,000 voters to give him a third successive term in tomorrow's elections. "Give Spain no hope," proclaim the posters of his Gibraltar Socialist Labour party (GSLP).

Mr Peter Caruana, a barrister seeking to unseat Mr Bossano, meets the GSLP campaign head-on as he tours the dilapidated housing estates of the six square kilometre British crown colony, megaphone in hand. "You don't need a dictatorship to be safe from Spain. No hope for Spain means no hope for you."

Accusations that Mr Bossano high-handedly rejects accountability and bends the rules to favour tobacco smugglers and drug money launderers are countered with emotive appeals to resist a sell-out to Madrid.

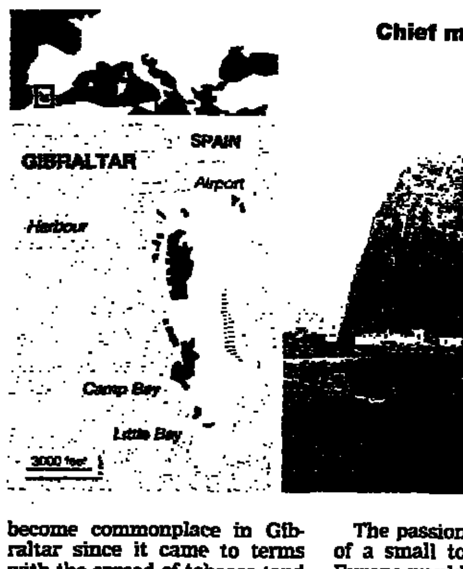
The GSLP has dubbed Mr Caruana's Gibraltar Social Democrats (GSD) the Gradual Spanish Domination party.

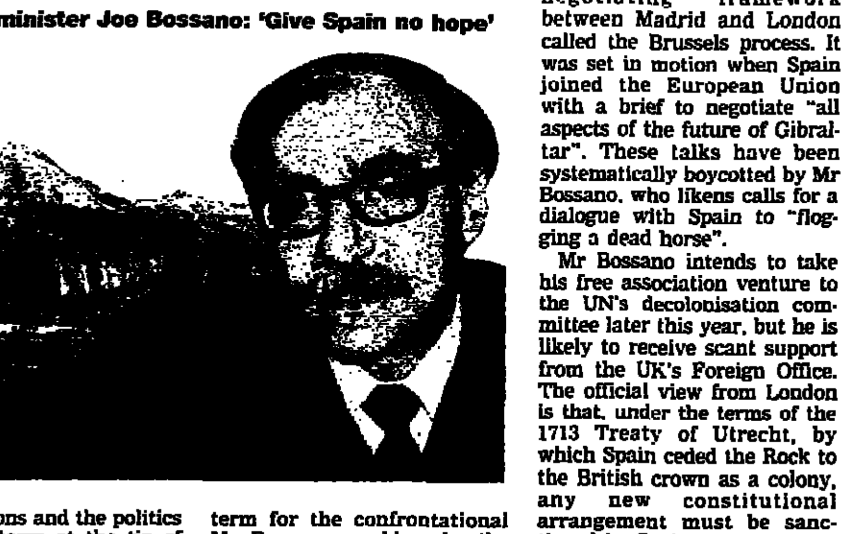
With the two parties said to be running neck-and-neck, the bad tempered campaign has polarised Gibraltar's normally close-knit society as never before. The populism of Mr Bossano, a former trade union activist, has built a sense of nationhood in Gibraltar. But he has alienated both Britain and Spain in the process, and the Rock, now more a backwater than ever, is no longer the cosy place it was.

Professionals and shopkeepers have flocked to Mr Caruana because the GSLP has failed to deliver an offshore finance centre and has undermined tourism.

Mr Bernard Linares, a one-time Catholic priest and former headmaster of the boys' comprehensive school on the Rock who is running on the GSD ticket, said the eight years of Bossano rule had amounted to "a cancer eating away at our moral fabric".

Such dramatic talk has





Chief minister Joe Bossano: 'Give Spain no hope'

become commonplace in Gibraltar since it came to terms with the spread of tobacco (and increasingly of hashish) smuggling. The smuggling community embarked on vicious rioting last July when Mr Bossano, under pressure from the UK, itself under pressure from Spain, finally began to crack down on the contraband groups and confiscate their fast launches.

The unprecedented violence prompted a huge counter-demonstration by Gibraltar's otherwise silent majority, including the Catholic and Anglican churches, the five synagogues and one Hindu temple.

The passions and the politics of a small town at the tip of Europe would not matter much to the outside world, but for the Rock's shadow over Brussels – where the UK is at pains to press European Union directives on a reluctant Mr Bossano – and even over the United Nations, where the issue of Gibraltar's decolonisation is regularly raised by both Spain and Mr Bossano.

Thursday's poll is rightly termed a "landmark" or a "watershed" by the candidates. But it is also of vital importance to relations between Spain and Britain.

A GSLP victory and a new term for the confrontational Mr Bossano would make the Gibraltar problem more intractable than ever and continue to sour contacts between Madrid and London. Should Mr Caruana's GSD win power there would at least be the possibility of a diplomatic solution, and the chance of economic viability for the Rock.

Mr Bossano says he is seeking a mandate for self-determination. Should he win tomorrow, he will next week present Mr Malcolm Rifkind, the British foreign secretary, with the draft of a new constitution for Gibraltar that would transform its present colonial status into one of free association with the UK.

Mr Caruana says a GSD government would, in contrast, participate in a 10-year-old negotiating framework between Madrid and London called the Brussels process. It was set in motion when Spain joined the European Union with a brief to negotiate "all aspects of the future of Gibraltar". These talks have been systematically boycotted by Mr Bossano, who likens calls for a dialogue with Spain to "flogging a dead horse".

Mr Bossano intends to take his free association venture to the UN's decolonisation committee later this year, but he is likely to receive scant support from the UK's Foreign Office. The official view from London is that, under the terms of the 1713 Treaty of Utrecht, by which Spain ceded the Rock to the British crown as a colony, any new constitutional arrangement must be sanctioned by Spain.

The effective Spanish veto means that Mr Bossano's venture is a non-starter. A far more realistic path lies in the Brussels process which Mr Caruana would seek to join, although he warns that the GSD will not give "an inch on sovereignty".

Lord Howe, when he set the Brussels talks in motion as foreign secretary, gently indicated that the future of Gibraltar lay in reaching an understanding with Spain. The campaign for tomorrow's election suggests the message is gradually getting through.

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EUROPEAN NEWS DIGEST

Turkish blow to coalition

Turkey's constitutional court yesterday threw the country's fractious conservative coalition government into further disarray after agreeing that a parliamentary confidence vote in March contravened parliament's regulations and was therefore invalid. However, the semi-official Anatolia news agency reported that, while the ruling by Turkey's highest court "has annulled the government's vote of confidence, it does not suspend the [vote's] validity". Commentators said the court's decision is not retrospective, but establishes a legal precedent.

The ruling is seen as weakening further a government shaken by bitter disputes between its two coalition partners.

The court also declared that a vote extending the mandate of a western air operation based in Turkey to enforce a United Nations no-fly zone in northern Iraq, and the renewal of emergency rule in Turkey's Kurdish southeast region, were invalid. *John Barham, Ankara*

Italy's north-south gap widens

The gap between the industrial north of Italy and the south has widened sharply during the past two years because of the failure of the recovery to affect large areas of the Mezzogiorno, according to the annual report of Istat, the state statistics institute.

In the south, 37 per cent of households considered themselves worse off last year, a 5 per cent increase over the previous year. Whereas in the north, only 3 per cent of households considered they had insufficient resources to cope, that percentage doubled in the south. There, 6.8 per cent of family heads were in search of work, triple the north's level. The north-south gap was most evident on the islands (mainly Sardinia and Sicily) where household spending has declined for the fourth successive year.

Istat also revealed that only two thirds of the 88,000 university graduates in 1992 had found a job by last year. Only a third of those entering university completed their degrees. *Robert Graham, Rome*

Bulgaria acts on problem banks

Bulgaria's parliament yesterday approved a bank bankruptcy bill as a crucial part of its strategy to tackle the problem of loss-making banks and to win funds from international lending institutions. Ms Ann McGuirk, head of an International Monetary Fund mission currently in Sofia, urged President Zhelyu Zhelev in a meeting yesterday to sign the bill into law as quickly as possible. The IMF visit has coincided with a crisis of confidence in the currency and in Bulgaria's debt-laden banks, which forced a drastic increase in interest rates late last week.

A government plan has identified nine of the country's 47 banks as being "in a difficult financial condition to which all options of restructuring can be applied," and it suggests the closure of three. *Kevin Done, London*

E German trade up 15.4%

Eastern Germany's trade with the rest of the world grew last year by 15.4 per cent to DM26.3bn ($17.5bn), the federal economics ministry announced yesterday. Following the slump in trade with traditional markets in central and eastern Europe, companies in eastern Germany have concentrated on expanding trade with western countries.

The biggest increase was with the US, where trade grew by 84 per cent and for the first time crossed the DM1bn ($600m) level. Russia remains east Germany's largest trading partner in central and eastern Europe, accounting for 13.8 per cent of exports and 20.8 per cent of imports. In total, central and eastern Europe accounted for 35.5 per cent of exports from east Germany and 40.8 per cent of imports.

Total exports from eastern Germany rose 12.4 per cent to DM13.9bn, but imports went up 18.1 per cent to DM12.5bn, resulting in a slight dip in the region's overall trade surplus which stood at DM1.4bn. East Germany's share of Germany's total foreign trade increased slightly from 1.7 per cent to 1.9 per cent. *Frederick Stüdemann, Berlin*

Loss for French post office

The French post office yesterday reported a loss for 1995 of FFr1.2bn ($230m) in the face of growing competition and falling demand for the use of its postal services. Revenues fell by 1 per cent to FFr80.5bn for the year, largely reflecting a drop in postal activity in the face of private courier services, as well as the impact of the industrial unrest in France at the end of last year. By contrast, revenues from its financial services activities – including the sale of investment and life assurance contracts – rose 7 per cent to FFr20bn.

The post office stressed its commitment to keep reducing its levels of debt, which stood at FFr31.1bn at the end of last year. It expected to return to break-even during 1997 and no longer received any state subsidy when it ran into deficit and was obliged to borrow from the financial markets. It paid a new payroll tax for the first time last year, at an additional cost of FFr1.3bn. *Andrew Jack, Paris*

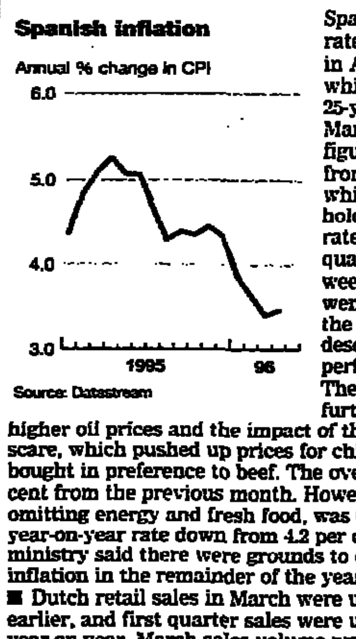
Czech telecom sale defended

The Czech economy ministry yesterday defended its handling of the sale of a stake in SPT Telecom, the national telephone company, to a foreign partner after a court decided part of the sale process was invalid. In a joint statement, Mr Karel Dyba, economy minister, SPT and the state holding company, said the court decision was "unjustified" and did not affect the sale of 27 per cent of the company to TelSource, a Dutch/Swiss consortium, last summer.

A commercial court ruled that an SPT shareholder meeting in February 1995, which cleared the way for the sale of the stake, was invalid because Mr Dyba did not hold a proper power of attorney over the holding company's stake in SPT. The telecom company is to appeal. *Vincent Boland, Prague*

ECONOMIC WATCH

Inflation on the rise in Spain



Spain's 12-month inflation rate edged up to 3.5 per cent in April, reversing a trend which saw the rate fall to a 25-year low of 3.4 per cent in March. The consumer price figure confirmed warnings from the Bank of Spain, which yesterday decided to hold its benchmark interest rate at 7.5 per cent after a quarter-point reduction last week. Although the increase went against most forecasts, the economy ministry described the inflation performance as "positive". There would have been a further fall had it not been for higher oil prices and the impact of the "mad cow" disease scare, which pushed up prices for chicken and other products bought in preference to beef. The overall index climbed 0.6 per cent from the previous month. However underlying inflation, omitting energy and fresh food, was 0.3 per cent, bringing the year-on-year rate down from 4.2 per cent to 3.9 per cent. The ministry said there were grounds to expect some easing of inflation in the remainder of the year. *David White, Madrid*

■ Dutch retail sales in March were up 0.2 per cent from a year earlier, and first quarter sales were up 2.1 per cent year-on-year. March sales volume was up 0.1 per cent year-on-year and prices also rose 0.1 per cent.

■ German wholesale prices rose 0.2 per cent in April from March, and fell 1.1 per cent from April 1995.

NEWS: EUROPE

France begins budget struggle

By David Buchan in Paris

The French government yesterday began the long haul of preparing its parliament for deep spending cuts in its budget for 1997, when it hopes to qualify for European monetary union.

At the start of a two-day National Assembly budget debate, Mr Jean Arthuis, the finance minister, said the government's aim was to hold overall 1997 spending at this year's planned level of FFr1,552bn ($302bn), and to lower the budget deficit for the second successive year by 0.5 per cent of national output, roughly FFr40bn.

Mr Arthuis made clear the upward drift in debt charges, civil service pay and job subsidies – coupled with weak growth in tax revenue – would make it harder to squeeze public spending next year. But he did not specify yesterday where the axe would fall on 1997 expenditure. This will be negotiated among ministries during the summer and announced in the autumn.

But the finance minister said the only sector "ring-fenced" from further cuts would be defence, after the government this week laid out a six-year programme confining military spending to FFr186bn a year. This plan entails cuts and delays in defence programmes, bringing immediate protests from naval yards yesterday.

In parliament yesterday Mr Arthuis only hinted at possible cuts in the civil service, but Mr Pierre Méhaignerie, chairman of the finance committee, divulged the government was considering non-replacement of 10,000 civil servants retiring in each of the next three years.

The unions reacted angrily to Mr Méhaignerie's revelation, which came after they had signed an agreement with the government to give permanent civil status to some 37,700 temporary "agents" over the next four years. Government budget-cutters are eyeing other areas, including some of the 40 types of job subsidy that cost FFr130bn a year.

Kuchma takes tough stance over reforms

By Matthew Kaminski in Kiev

Mr Leonid Kuchma, Ukraine's president, has threatened cabinet ministers with dismissal if they stand in the way of market reforms.

Mr Kuchma's push to strengthen executive control is seen to be motivated by growing domestic anxiety about imminent Russian presidential elections and the need to meet stringent International Monetary Fund conditions on a critical loan approved last week.

Poor economic management and lack of policy co-ordination have undercut Mr Kuchma's stated commitment to turn around east Europe's economic sick man and shore up Ukraine's shaky independence.

The president on Monday rebuked ministers responsible for industry, agriculture and energy for failing to meet revenue targets and exceeding spending limits in the 1996 budget. A decree stipulates ministers and enterprise directors who fail to pay salaries on time will be fired.

"I have warned all the ministers: if it continues to go as it has to this day, these ministers and this cabinet are not needed by the nation," Mr Kuchma said.

The president also indicated political deadlock would end only with the adoption of a new constitution. The murky division of powers strains relations between the president, parliament and cabinet. The supporters of a draft constitution argue clearer political ground rules would make it easier to set and implement policy.

Mr Kuchma has stepped up pressure for its adoption before presidential elections in Russia in June. Leaders in Kiev argue a constitution must be in place in case a communist victory strengthens Russian hardliners opposed to reform in Ukraine.

Communist and socialist MPs oppose the draft's strong presidency. Yesterday several walked out of constitutional talks. Many analysts expect Mr Kuchma to call a referendum and bypass parliament in the coming weeks.

But the IMF also looms large. The Fund withheld support for six months until approving a $867m loan last week to be disbursed in closely monitored monthly tranches. Ukraine promised to keep inflation below 42 per cent, speed privatisation and hold the budget deficit at 6.2 per cent of gross domestic product.

The indicators so far are good. Inflation last month fell to 2.4 per cent, the lowest rate in two years. The karbovanets currency remains stable. Officials took heart from a reported 18 per cent jump in exports, at $2.8bn, in the first quarter.

However a vicious circle of wage arrears, inter-enterprise debt and poor tax collection threatens to stretch the budget deficit. In the first quarter the deficit already exceeded 10 per cent of GDP, prompting worry about Kiev's ability to reduce spending or boost revenues in line with IMF demands. Mr Kuchma's crackdown is intended to do this.

Ukraine needs the IMF support to cover foreign debt – largely Russian energy imports – and the budget deficit without stoking inflation. The country budgeted for $2bn in outside financial support this year, its second IMF-tailored attempt at economic stabilisation since independence.

Romania fund suspended again

By Virginia Marsh in Budapest

Romania's largest mutual fund, which had been due to resume operations today, has been suspended for a further 90 days after the country's securities commission discovered several irregularities, including suspected insider trading. Safi, the financial group which founded and ran FMOA, has also ceased management of the troubled fund.

Bucharest newspapers reported yesterday that several leading individuals linked to Safi and the fund had withdrawn their investments in the month before its first suspension for 10 days from April 29. One report suggested 22 individuals, including Mr George Danielescu, the former finance minister who set up Safi in 1993, had withdrawn a total of 510m lei ($170,000) before a 45 per cent or $71m markdown in the value of the fund's units was made public.

The markdown was prompted by new regulations requiring funds to calculate their value on current rather than projected earnings and assets. FMOA, which had been the country's largest fund, with more than 200,000 investors, was the only one not to comply immediately.

Confidence in the fund – and the sector in general – has plummeted since the markdown was announced and the securities commission began its investigations. Safi offices around the country have been inundated by thousands of investors.

The commission said that by this week FMOA had received withdrawal requests for about 55bn lei but that it had funds to cover only 47bn lei. Previously, Safi officials said the fund could stand immediate withdrawals of up to 100bn lei.

Since the first investigations the fund's net asset value has also been marked down a further 7.2 per cent to 254bn lei. In a statement, the commission said some of the fund's investment decisions had been illegal and that it had not diversified its portfolio sufficiently.

The fund is believed to have made significant loans to Elvila, a furniture company owned by Mr Viorel Catarama, a leading local entrepreneur and one of Safi's main backers.

However, the commission said the fund had some good medium- and long-term investments and it might survive. Coopers and Lybrand, the accountants, are to conduct an audit and a foreign investor may be sought.

■ More than 85 per cent of Romanians participated in the country's privatisation programme by the end of the subscription period last month, government advisers said yesterday.

Dewe Rogerson, the UK consultants, said a further 5 per cent of coupon holders had entered bids for five regional funds in April, the final month of subscription. Romanians had until the end of March to enter bids for nearly 4,000 state companies being sold off.

The coupons, which have a nominal worth of 875,000 lei, equivalent to more than three times the average net monthly wage, were distributed free to 95 per cent of those eligible. Fewer than 20 per cent entered bids in the first three month subscription period, forcing the government to extend the deadline.

An angry FMOA investor talks to other depositors in Bucharest yesterday Reuter

German asylum laws receive court backing

By Peter Norman in Bonn

Germany's controversial asylum laws, which have cut the flow of asylum seekers from developing countries in the past two years, were backed yesterday by the constitutional court in Karlsruhe.

After six months' deliberation, the court found the three central elements of a 1993 law to restrict Germany's hitherto liberal asylum laws were compatible with the constitution.

The decision was greeted with relief by politicians from the ruling coalition of Chancellor Helmut Kohl, but sharply criticised by the Green party and refugee and human rights organisations.

Ms Claudia Roth, leader of the Greens in the European parliament, condemned the judges as "blind, deaf and dumb", while Mr Wolfgang Grenz of Amnesty International said the judgment was a serious blow to victims of political persecution and human rights violations.

The law, a political compromise passed by the government parties and the main opposition Social Democratic party in response to cases of racial violence and growing support for far right parties, reduced the flow of asylum seekers to 127,000 in 1994 from 438,000 in 1992. It was challenged by five people from Iraq, Iran, Ghana and Togo who had been refused asylum.

Up to three of the eight judges dissented on some parts of the 234-page judgment.

At issue were provisions that withdrew the right of asylum from people entering Germany by way of a "secure third country" or from a "secure home country". European Union nations and Germany's neighbours counted as secure third countries; secure home countries include nations such as Ghana, where human rights organisations have said the death sentence is applied.

Another disputed element was the so-called airport rule, allowing authorities to turn away an asylum seeker from a secure home country or a foreigner without a valid passport in the transit area of a German airport. The law gave the right of appeal against such a decision but the rules were set to ensure rapid deportation in the event of a lost appeal.

In its judgment, the court backed the government's right to turn away asylum seekers from a secure third country. It determined that German legislators had some discretion to determine which nations were secure home countries. The court also backed the airport rule but specified limited extra rights for asylum seekers.

Greece cleans up in beach contest

By Caroline Southey in Brussels

There is money in keeping beaches clean, according to the EU Commission's latest data on the dirtiest and cleanest bathing areas in the union.

EU countries with coastlines that generate cash from tourism are the best at ensuring their seas can be swum in. Greece scores nearly full marks, with 98 per cent of its 1,526 bathing areas meeting water quality conditions laid down by the Commission. Spain is close behind with 96 per cent.

Another top scorer is Ireland, where if ever there are any swimmers they are guaranteed clean bathing conditions on 98 per cent of the beaches. Part of the explanation for this, according to an EU official, is that Ireland has only 108 beaches to worry about.

The poorest performers are Germany, where only 81 per cent of beaches meet the criteria, and the UK, with 89 per cent. France too has a poor rating, mainly because it has failed to provide sufficient information.

The Netherlands comes bottom of the class for the quality of information provided.

But the most disturbing picture to emerge from this year's data is the state of Europe's lakes and rivers. Over 30 per cent of the 1,700 inland water areas used frequently by bathers fail to meet the minimum standards of water quality.

Luxembourg is one of the worst offenders. Would-be bathers are advised not to venture into 15 per cent of the "fresh" water bathing areas.

In Spain 31 per cent of inland waters are deemed unfit for swimmers.

The figures are part of the Commission's 13th report on the quality of water from the Mediterranean to the Baltics, which found more than 3,000 out of 18,000 bathing areas failed to meet EU rules on water quality, or had not been monitored well enough to justify classifying their condition.

China softens stance on tests

By Frances Williams in Geneva

Western diplomats yesterday welcomed China's signal that it was prepared to show "flexibility" in its demand for the right to carry out "peaceful" nuclear explosions. They voiced optimism a global test ban treaty can be completed by the end-June deadline.

Mr Jaap Ramaker, chairman of the test ban talks, said the 38 participating countries had agreed to give the slow-moving negotiations new impetus to meet the June 28 target. "It will not be easy, it will be very tough [but] I'm confident that it can be done," he said.

The United Nations Disarmament Conference resumed negotiations this week after a month-long break for delegations to seek fresh instructions from their governments.

During that time Russia joined the US, France and Britain in formally endorsing a global ban on all nuclear tests, however small. But China has continued to insist on the right to conduct peaceful nuclear explosions for large-scale civil engineering projects, a demand rejected by other nations, which say that such explosions are indistinguishable from military testing.

Mr Sha Zukang, China's chief disarmament negotiator, said late on Monday that Beijing was prepared to show "a reasonable degree of flexibility" on the matter, provided other countries reciprocated.

Mr Sha said China had proposed strict international control measures to monitor peaceful blasts, including prior notification and on-site inspections.

"We don't want to see complete denial of the use [of such explosions] to developing economies. Others need to be convinced. We are running out of time," he said.

There seems little chance that other countries will be persuaded to abandon their opposition to peaceful nuclear testing. Nevertheless, diplomats took the relaxation of Beijing's rigid stance as a sign that China may now be willing to compromise.

China, alone of the nuclear weapons states, has refused to join a testing moratorium and says it will continue testing until the treaty enters into force. France completed its final testing programme earlier this year.

Other outstanding issues in the negotiations include India's demand for a commitment to total nuclear disarmament within a fixed time-frame, procedures for instituting on-site inspection when violations are suspected, and how many and which countries should be required to ratify the treaty for it to enter into force.

Business backs Peres in bid for peace dividends

Israel's captains of industry see a Labour electoral victory as vital for sustaining economic growth, writes **Julian Ozanne**

ISRAELI ELECTIONS May 29

A recent advertisement by businessmen supporting the election campaign of Mr Shimon Peres, the Israeli prime minister, read like a roll call of Israel's most powerful captains of industry. While Mr Peres faces a tough challenge winning elections in two weeks' time, the majority of Israeli businessmen have rallied to his cause and expressed deep foreboding about the prospect of the right-wing Likud returning to power and destroying the Middle East peace process.

For the veteran 72-year-old Labour politician, whose intellectual education was forged by the socialist Kibbutz movement, receiving the backing of profit-hungry businessmen has been a bonus in an otherwise heavy-going campaign in which he has often faced angry voters.

The very public support by Israel's business élite for Mr Peres shows how far the Labour Party has evolved from its image of sandal-wearing socialism and the importance of unfolding Arab-Israeli peace to future corporate profitability.

Mr Peres is campaigning on a platform of continued economic reform and pressing ahead with the peace process started by the current government in 1993.

Mr Benjamin Netanyahu, his right-wing challenger, is also pledged to radical liberalisation of the economy but his policies towards Arab neighbours would effectively lead to the collapse of the peace process and risk a renewal of conflict.

Latest opinion polls show Mr Peres leading Mr Netanyahu by 4-5 percentage points.

"Shimon Peres, you are leading us to peace. You and only you are our choice," said the advertisement which appeared in two of Israel's most important dailies.

Among the two dozen prominent businessmen who signed it were Mr Benny Gaon, chief executive of Koor Industries, Israel's biggest and most profitable conglomerate; Mr Shlomo Groffman, chief executive of Africa Israel, the country's biggest real estate and insurance company; Mr Eli Hurvitz, chief executive of Teva Pharmaceutical Industries; Mr Emmanuel Gill, chief executive of Elbit, a big electronics and defence manufacturer; and Mr David Wainsal, chief executive of the Clal holding group.

Following publication of the advertisement, more than 300 senior business executives, whose companies reportedly account for up to 75 per cent of private sector turnover, last week attended a pro-Labour convention in Tel Aviv.

By unashamedly endorsing Mr Peres, corporate Israel broke a long tradition of political impartiality and silence at election time.

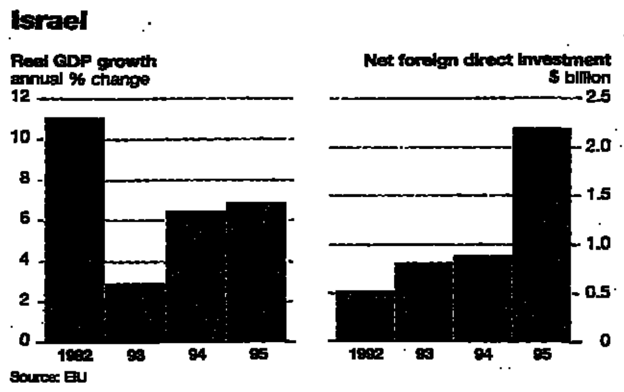
"I believe chief executives should not be involved in politics," said Mr Michael Strauss, chief executive of the Strauss Group, a large diary manufacturer. "But this time it is very crucial for businessmen to come out of the closet to support the Labour party and the peace process."

For many Israeli businessmen, the economic developments in the past four years since the Labour party took power make a Peres victory essential. Although many admit the government has under-performed on curbing the budget deficit, controlling inflation and carrying out its privatisation promises, they believe continuation of the peace process is vital for growth.

'This time it is very crucial for businessmen to come out of the closet to support the Labour party and the peace process'
Michael Strauss, chief executive, Strauss Group

'Our only chance of growth is to join the global market place and without the peace process this just won't happen'
Benny Gaon, chief executive, Koor Industries

'The [stock] market wants a Labour victory because of the peace process'
Gad Hacker, senior analyst, Batucha Securities




Benny Gaon: One of two dozen prominent businessmen who publicly backed Peres in the election campaign

Since 1992, the economy has grown by an average 7 per cent a year. The opening of new markets has fuelled an even faster growth of exports at about 11 per cent a year.

Foreign investment has soared with the growing international perception of unfolding peace and stability in the region. According to the central bank, net foreign investment rose from $534m in 1992 to $2.2bn last year, of which $870m was direct foreign investment in Israeli companies.

Critical to many of Israel's biggest companies is the fact that the peace process has opened up new markets in southeast Asia, Africa, South America and the Middle East which were previously closed because of the political situation. The peace process also allowed Israel to complete a new trade association agreement with the European Union.

Companies such as Koor, which accounts for 7 per cent of Israel's output, have rapidly exploited new trade opportunities.

"Israel is very small economy with a saturated market and our only chance of growth is to join the global marketplace and without the peace process this just won't happen," said Mr Gaon.

Another development businessmen believe is threatened by a Likud victory is the increasing climate of international confidence in the stability of the Israeli economy.

Since 1993, there has been a flood of joint ventures between Israeli and foreign companies, many multinationals have visited Israel looking at it as a possible regional base, and Israel has benefited from positive changes in the attitude of international investment banks, particularly in Europe.

"Thanks to the peace process, I have forged contacts with multinational companies and I know the international community shares our belief in the importance of continuing the peace process," said Mr Strauss.

"Foreign investment and partnerships won't happen if the peace process stops and we have an obligation not only to our shareholders but also to our employees to speak in support of Peres."

The pro-Labour view is shared at the Tel Aviv Stock Exchange. "The market wants a Labour victory because of the peace process," said Mr Gad Hacker, senior analyst at Batucha Securities.

"A lot of interest in Israeli shares is generated by foreign investors and they are big believers in a new Middle East and in peace and stability and there is a belief that if this is threatened foreigners will easily move their money to a different market."

Mr Peres and the Labour party know that the economy is not uppermost in the minds of the person on the street.

Although many rank-and-file voters have enjoyed the fruits of Israel's new prosperity, security remains the overwhelmingly dominant electoral issue and on this front Mr Peres – despite the ruthless pursuit of the "Grapes of Wrath" operation in Lebanon – continues to face a bitter battle for votes.

US launches Internet programme for Africa

By Mark Ashurst in Johannesburg

A five-year programme to improve access to the Internet, the global network of personal computers, in 20 African countries, was announced by US Vice-President Al Gore at the Information Society and Development Conference in Johannesburg.

Speaking via satellite link-up from Washington, he said the "Leland initiative", named after Congressman Mickey Leland who died in an air crash over Ethiopia, aimed at spurring development and encouraging better government.

"Doctors will be able to tap into medical databases, agricultural extension agents will have access to information on techniques for increasing crop yields and African students will be able to learn by browsing through digital libraries."

Details of the programme, estimated to cost about $15m, are being finalised.

Delegates to the telecoms conference said, meanwhile, that private sector investment in the communications infrastructure of the poorest countries could be achieved only by encouraging competition and removing obstacles to the free movement of information and capital.

The conference, sponsored by the G7 group of industrialised nations, has attracted ministers and delegates from more than 40 countries and the private sector to address the widening technology gap between developed and developing countries.

Mr Carlo di Benedetti, chairman of Italy's Olivetti, urged governments of developing nations to remove obstacles that prevented the transfer of technologies to the developing world. These included inadequate protection of intellectual property rights, barriers to foreign investment and outdated regulatory systems.

"The developing world now has a rare opportunity to make a quantum leap... to close the gap between rich and poor, not through traditional industrialisation, but by joining at the same level in exchange of skills and know-how," he said.

The conference will add impetus to calls for more rapid privatisation of the state-owned telephone companies which monopolise the sector in most African countries, including South Africa.

A consensus was emerging on the need for clear regulatory frameworks if developing countries were to have a role in the knowledge-based global economy of the future.

But resolutions emerging from the second day of the three-day conference avoided the subject of privatisation.

International broadcasters jostle for World Cup rights

By Jimmy Burns in London

An impressive list of international broadcasting and marketing groups have lined up to bid for the world broadcasting rights for the football World Cup finals in 2002 and 2006.

Capital Cities/ABC, the subsidiary of Walt Disney, and owner of ESPN, the US cable sports network programme, emerged yesterday as the most recent addition to a list that been growing in the lead-up to today's submission deadline set by Fifa, the world governing body for football.

Other initial bidders are Mr Rupert Murdoch's News Corporation; the International Management Group, the sports company headed by Mr Mark McCormack; the Swiss-based sports company CWL-Luthi; ISPR of Germany; and Team, the Lucerne-based marketing arm for the Champions League run by Uefa, the European football union.

All the companies are challenging the rights held in previous World Cups by the international consortium led by the European Broadcasting Union which buys TV sports rights on behalf of public service broadcasters.

Fifa attacked over handling of negotiations

The EBU yesterday confirmed that the consortium had already submitted its bid for the two World Cups after the expiry in February of an exclusive period of negotiations. The EBU has the rights outside the US for the 1998 World Cup.

In an internal memorandum, Mr Joseph Blatter, Fifa's general secretary, urges members of the organisation's executive committee to consider the bids "carefully and discreetly, given that the amount at stake could run into thousands of millions of Swiss francs".

However, the Fifa leadership continues to face criticism about the way it has been handling negotiations on both the broadcasting and marketing rights for future competitions.

Having initially informed interested parties that the rights would be allocated on the basis of a global package, including both broadcasting and marketing, Mr Blatter has decided to sell the rights separately. Some companies believe this arrangement will work to the advantage of Fifa's long-term marketing agent ISL, at the expense of a more transparent bidding process.

Meanwhile, Mr João Havelange, the Fifa president, is expected to confirm today or tomorrow he has rejected proposals from a majority of the members of the executive committee that South Korea and Japan should co-host the 2002 World Cup. Instead, Fifa will decide on one of the two rival bids at an executive meeting on June 1. While Japan is thought to be strongly favoured by Mr Havelange, the executive committee is thought to be split on the issue.

Last month, all eight European members of the Fifa executive committee joined a call from Asian and African football authorities for the Cup to be co-hosted because of the increasingly intense rivalry of the two bidders to secure the contract.

European officials are concerned by the divisiveness of the bidding process, while developing countries want co-hosting to become a cost-saving formula for the future.

INTERNATIONAL NEWS DIGEST

Abu Dhabi in BCCI pay-off

The government of Abu Dhabi, principal shareholder in the collapsed Bank of Credit and Commerce International, yesterday paid $1.55bn to the bank's liquidators as the basis of the long-awaited payment to creditors. A further $250m will be held in an escrow account for release later. The terms of the settlement were finally agreed at the end of last year in the three jurisdictions in which the bank operated.

Yesterday's payment follows the passing of a deadline for appeals. Deloitte & Touche, the liquidators, said it still hoped to go ahead with a first dividend of 20 per cent this summer. It is hoped that more than 100,000 creditors will benefit. The bank collapsed in early 1992 with losses of $10bn. The search for a creditors' settlement has been dogged by repeated setbacks and several court actions are still pending.

Eventually creditors may get up to 40 per cent of their losses – plus any proceeds from court actions. *Jim Kelly, London*

Nigeria's first president dies

Nnamdi Azikiwe, Nigeria's first president, who died on Saturday aged 91, was a champion of African nationalism and master of compromise in his country's turbulent politics. Widely known as "Zik of Africa", the politician, scholar, poet and journalist helped to end the Biafran civil war that had plunged his Ibo people into mass suffering.

Mr Azikiwe was sworn in as Nigeria's first president in 1963 when it became a republic. He remained until the first coup d'etat in 1966, which led to civil war in June 1967 when Ibos in the east set up the secessionist state of Biafra under then Colonel Emeka Ojukwu. An estimated 1m people died, many from starvation, in the 30-month civil war. When Mr Azikiwe saw the hopelessness of the war he hastened its end by returning to the federal side. This was denounced as a sell-out by the Biafran leadership. *Reuter, Lagos*

Egypt's privatisation challenged

The leaders of three Egyptian opposition parties yesterday took legal action to try to stop the government's privatisation programme, saying it was unconstitutional. The heads of the Islamist-dominated Labour party and the leftist Tagammu and Nasserist parties joined up with lawyers and members of public sector unions asked Cairo's Administrative Court to overturn a cabinet privatisation decree. The opposition has challenged the government in the courts before but has rarely succeeded.

The government plans to sell 14 industrial companies, 36 hotels and six department-store chains, as well as part of the equity in at least 42 other companies. The opposition parties say privatisation is against the constitution, which states that the public sector belongs to the people. *Reuter, Cairo*

Pressure for rise in US rates lessens

By Michael Prowse
in Washington

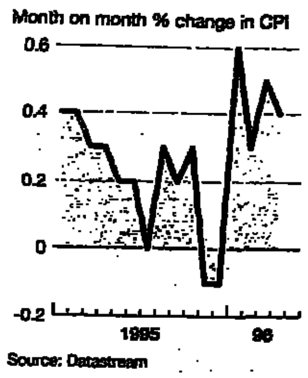
The chance of an early increase in US interest rates receded yesterday after official reports had signalled modest growth and little underlying upward pressure on inflation.

The Commerce Department said retail sales had fallen 0.3 per cent last month against expectations in financial markets of a zero increase.

Separately, the Labour Department said consumer prices had risen 0.4 per cent in the month and 2.9 per cent in the year to April.

However, the closely watched "core" consumer price index – which excludes food and energy – rose only 0.1 per cent, less than feared. This suggests that sharp recent increases in grain and oil prices are not yet feeding through into a broader rise in prices.

US Inflation



The figures were welcomed on Wall Street, as they appeared to confirm the reassuring signal on inflation from last Friday's producer price report. Bond and prices rose in early trading as traders bet that the Federal Reserve would not raise short-term interest rates at its policy meeting next week.

By late-morning, the benchmark 30-year Treasury bond was up half a point, pushing the yield down to 6.850.

The overall fall in retail sales reflected a 2.5 per cent decline in car sales from March. Excluding cars, sales were up 0.4 per cent last month. Officials also revised sales figures for March to show an overall gain of 0.5 per cent, rather than 0.1 per cent as previously reported.

Economists at Merrill Lynch in New York said the March revision suggested the official estimate of consumer spending growth in the first quarter would be raised from the previously reported annual rate of 3.5 per cent.

However, in the current quarter, growth of spending was likely to moderate – to an annual rate of little more than 2 per cent.

The consumer price index was pushed up mainly by higher energy costs, which rose 3.2 per cent from March. Energy costs have risen sharply for five months running, although crude oil prices have retreated from recent highs. Food prices rose 0.3 per cent, partly because of a large gain in fruit prices.

State's success amid private sector advance

Imogen Mark examines the future of Codelco, the growing and diversifying Chilean copper producer

Chile is regularly held up as a model of the free market economy, a decade ahead of the rest of Latin America in having shrunk its public sector and put the private sector in the driving seat.

But Codelco, the world's biggest copper producer, is looking forward confidently to a long and profitable life under state ownership, yet with, it hopes, ever more autonomy to run itself like a private company.

The Chilean government wants Codelco to keep production steady at 15 per cent of copper mined worldwide, says Mr Juan Villarzú, the chief executive office.

"This is not for ideological or doctrinaire reasons, but because it's good for the country as long as it's competitive," he maintains.

Codelco is indeed good for the state's coffers. The company's after-tax profits in 1995 were $637m. It represents 20 per cent of all Chile's export earnings, and it contributed a massive $1.7bn last year to fiscal revenues – equivalent to the corporation tax paid by the whole of the Chilean private sector.

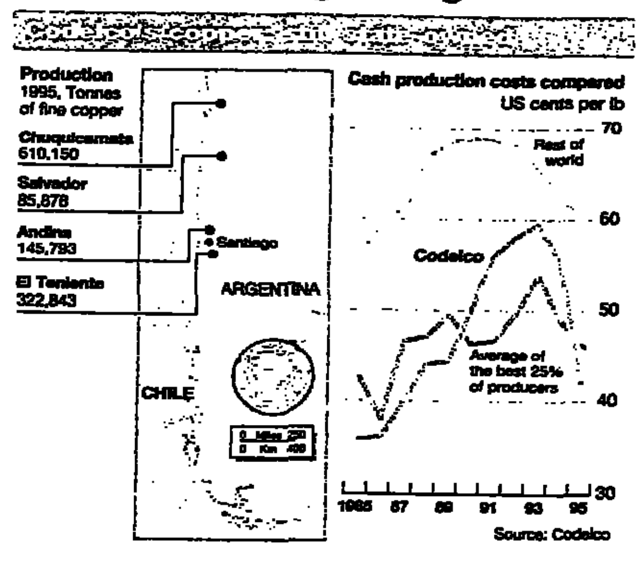
However, it will have to run hard to stay in the same place. Last year, private sector copper production as a whole in Chile overtook that of Codelco, and more new low-cost private mines are due on stream before the end of the century.

Codelco's Chuquicamata mine has just lost its title as the biggest copper mine in the world to Escondida, the first of the new private mines in Chile.

So Codelco can only stay state-owned, Mr Villarzú says, "if it can compete with the new producers. That means it must be run like a private enterprise, with competitive cost structures and budget discipline."

For this reason, the management chose to go for a showdown on wages this month at Chuquicamata, where the current round of collective bargaining had broken down. The workers went on strike this month but returned to work last weekend, having accepted a new style of bargaining where final offers are really final, with no last-minute concessions.

The company says the workforce has made real wage gains of 5 per cent over the past year, through a system of productivity bonuses. Chuquicamata has shed jobs and the workers have accepted more flexibility in job definitions, with truck drivers doing basic maintenance on the vehicles, for example, and taking shorter lunch breaks.



The managements at all four of Codelco's mines are going through a change of corporate culture, Mr Villarzú claims.

"The general managers are learning to think less about the mine operations and simply maximising production, and more about getting better value from the business," he said.

The next big step depends on the Chilean Congress. The government has proposed a new law for Codelco, which would allow some of the powers of the executive vice-president – currently Mr Villarzú – to be delegated to the four divisional managers.

Each division would then operate like a private company under Chilean company law, with its own board of directors.

The proposal has been with Congress since May 1994, but Mr Villarzú hopes it will be law by the end of this year.

One big project is already moving ahead – a fifth mine, known as Radomiro Tomic. It is due on stream late next year and is meant to add 150,000 tonnes to Codelco's annual output.

The new mine is close to Chuquicamata and will help to replace the latter's declining production. The new mine is being financed directly by Codelco out of its own funds.

But approval of such new investments is a long political process, which is one reason why the company is developing other kinds of projects with private partners.

One such venture is the mine, El Abra, where Codelco sold a controlling stake and the operating rights to the deposit to a US company, Cyprus Amax, for $330m. The 130,000-tonne mine should be running towards the end of this year.

But the Chilean company wants financial, not operating, partners in other future ventures. It has, for example, two other well-defined deposits, Mansa Mina, near Chuquicamata, and San Antonio, near Salvador, one of its two smaller mines.

One idea for San Antonio – once the deposit has been better explored – is to look for finance from local pension funds and insurance companies, which have not yet ventured into the mining business but are looking for new investment opportunities.

Another vehicle for attracting private risk capital is an investment fund, Los Andes is being put together by Codelco with AMP, Australia's biggest private pension fund manager, which has a tradition of mining investment.

AMP is investing $6m in cash, and Codelco is contributing a handful of exploration prospects.

But the idea is for the new fund to buy into other, more advanced properties, and then become listed on the Santiago stock market, again in order to attract local investors.

The new venture is intended to be the nucleus of Latin America's first mining finance house, according to Mr Jorge Bande, AMP Chile's representative, and the idea is for the partners to go abroad eventually, in Latin America or elsewhere.

If this and even some of the other prospects work out as planned, and – a bigger if – productivity and cost reduction targets are met, Codelco will be a main engine of growth in Chile and in the world copper markets, well into the next century.

Arms export scandal hits Camilión

Argentine minister fights to keep job

By David Pilling
in Buenos Aires

Mr Oscar Camilión, the Argentine defence minister, was yesterday fighting growing calls for his dismissal, ahead of two days of questioning by congressional committees investigating illegal arms sales to Ecuador and Croatia.

The rumpus follows revelations that Argentina sold thousands of rifles and 75 tonnes of ammunition to Ecuador in February 1995, when that country was in a border conflict with Peru. Argentina was then helping to negotiate an end to the conflict in its capacity as a guarantor of peace under the 1946 Rio de Janeiro protocol.

There is also strong evidence that Argentina contravened a UN arms embargo by selling 6,500 tonnes of ammunition, worth about $40m, to Croatia in 1991-95. Argentina then had troops in the Balkans on a UN peace contingent.

The government claims that, in both cases, it was duped by international traffickers who diverted sales from third countries to which Argentina had legitimately sold arms. Mr Camilión signed documents approving sales of weapons by Fabricaciones Militares, the Argentine state-run arms company, to buyers in Venezuela.

But the shipment went directly to Ecuador. Many of the Croatian shipments are believed to have arrived via Panama.

Mr Camilión has said he was a victim of these "triangular" operations, and accuses the opposition of trying to turn a "common crime" into a political witch-hunt. Mr Luis Sarlenga, head of Fabricaciones Militares, was sacked this year and has been charged with overseeing illegal arms sales to Ecuador.

Mr Federico Storani, an opposition Radical party deputy, yesterday called for Mr Camilión to resign: "It is not possible for there to be no political responsibilities." The defence minister must face "political trial, so that the public can know what happened."

Even some members of Mr Camilión's own Peronist party have demanded that he resign. Mr Jorge Matzkin, Peronist leader in the lower chamber of Congress, reminded Mr Camilión of President Carlos Menem's oft-quoted phrase: "Cabinet members are like fuses" – easy to replace.

International pressure was also growing yesterday with the arrival in Buenos Aires of Ms Martha Chávez, head of Peru's Congress. She will deliver today what is believed to be a blunt letter to Mr Menem, urging a swift and satisfactory resolution of the affair.

Fabricaciones Militares has now been moved from the defence ministry's supervision to that of the economy ministry, pending its expected privatisation. The company, run by the army, has six factories which make mainly such low-technology arms as artillery pieces, automatic rifles, short-range missiles, mines and grenades.

Probe of US air authority

The US Department of Transportation is to investigate charges that Federal Aviation Administration inspectors were told to "go soft" on ValuJet, whose DC-9 aircraft crashed near Miami on Saturday, Reuter reports from Washington.

"The Department of Transportation's Office of Inspector-General will investigate whether or not inspectors were directed to 'go soft' on ValuJet," said an aide to the inspector-general yesterday.

The US television network ABC reported that the department had information alleging falsification of FAA reports on the airworthiness of ValuJet aircraft. ABC claimed that the inspector-general might launch a full criminal investigation.

ValuJet had no immediate comment on the ABC report.

Parties mount challenge to BJP

By Shiraz Sidhva and Mark Nicholson in New Delhi

India's main "social justice", secular and regional parties yesterday set aside their differences to elect a prime ministerial candidate, thereby making a last-minute bid to challenge the Bharatiya Janata party's claim to form a government in New Delhi.

Mr Deve Gowda, the 63-year-old Janata Dal chief minister of Karnataka, last night met Mr Shankar Dayal Sharma, the Indian president, to stake his claim to become prime minister. Mr Gowda was elected leader of the alliance of JD, regional and caste-based parties late yesterday after a day-long meeting and earlier failed attempts to persuade Mr V.P. Singh, former prime minister, to lead a "secular democratic" alternative to the BJP.

Mr Gowda heads a group which includes the Janata Dal, regional parties from Andhra Pradesh and Tamil Nadu and Assam, some ex-Congress factions, the Uttar Pradesh-based Samajwadi Party and some other small groups. The grouping hopes to persuade Mr Sharma to invite them to form a government, rather than the BJP and its allies, which emerged as the biggest party in the elections.

Mr Sharma is expected to make his decision in the next two days.

The newly fledged coalition is expected to count on the support of India's two main communist parties, which won 56 seats, and the Congress party, which has 136 seats, "from the outside", but not as direct participants in the coalition.

As such the new group hopes to block any attempt by the BJP to form a government.

The secular parties' attempts to muster the required governing majority of 272 seats had earlier received a setback with an announcement from the Communist Party of India (Marxist) that its 43 MPs would not participate in any government supported by Congress. But the party said it would "make its full contribution to all efforts to keep the BJP out of power".

Mr Jyoti Basu, chief minister of West Bengal and senior CPI(M) leader, who had earlier emerged as a consensus candidate to lead a secular coalition, made it clear that he would not be part of any government which needed the support of Mr Narasimha Rao's Congress party.

His withdrawal from the prime ministerial race appeared until late last night to leave the field clear for Mr Atal Behari Vajpayee, BJP prime ministerial candidate. Mr Vajpayee dismissed attempts to keep out the BJP, which won 195 seats with its allies, saying "the BJP is unstoppable".

Politicians play the coalition game

The state *bhavans* of Delhi have never been so busy, the utilitarian state guest houses which are strung in a line along one of South Delhi's grander leafy boulevards.

As politicians emerged from the *bhavans* for the cameras, armed guards parted the yelling scrums to allow one or other regional chieftain to enter his official Ambassador car to beetle across South Delhi for a closed-door session in another state *bhavan*, or a party headquarters.

Frenzied speculation followed their every move, each of which continued the complex Indian tradition of forming a coalition. These regional leaders have suddenly become kingmakers, as a small group of regional parties holding around 60 seats could determine which political grouping forms the next government.

The Hindu nationalist Bharatiya Janata party – the single largest party – and its allies, perhaps 90 seats short of a majority, need their support.

Meanwhile, they were also courted by the left-wing Janata Dal party and its allies, which can count on perhaps just 73 seats itself. Late last night the Janata Dal appeared to have won the battle of the *bhavan* and won the support of most regional groups. But it seemed touch and go all day.

Thus when Mr Deve Gowda, a Janata Dal chief minister from the southern state of Karnataka, left the melee outside the *bhavan* of neighbouring Tamil Nadu yesterday morning a rumour shot through the press hordes that he was off to see Mr P.V. Narasimha Rao, Congress leader and consummate low-profile dealmaker.

Until, that is, Mr Gowda's car rumbled the 50 metres to the *bhavan* of his own state across the road. An hour later Mr Mulayam Singh Yadav, leader of the "backward caste" Samajwadi Party which holds 17 seats, excited similar electricity by appearing at the headquarters of the Communist Party of India (Marxist).

It was a day of such frustrating speculation as politicians toed-and-froed, turning the wide boulevards of South Delhi into a giant boardgame. The game's rules appeared borrowed promiscuously from Risk, chess, poker, bridge and, if cynics are correct that Rs50m ($1.42m) will buy the loyalty of a newly elected independent MP, probably Monopoly. "In the end it will all come down to buying people," said one communist party official.

But whatever deals were hatched and broken were done in private. Most parties yesterday kept their counsel. And whatever speculation trailed the politicians' Ambassadors, the politics of India's next coalition government was as likely to be decided unseen by Delhi's veteran political fixers – "the same old 30-40 political sinners", as one such characterises them.

But the old sinners have seldom had so complex a game to play – one rendered more complicated by the emergence of so many important but politically fractious smaller caste-based and regional parties. Last night the main regional groups pledged their support to a broad coalition with the "social justice" Janata Dal under Mr Gowda as leader. But the deal which achieved this is likely to have brought intra-regional disputes and individual state problems into the centre of India's political stage.

For example, the dispute between Karnataka and Tamil Nadu over the sharing of water from the Cauvery river, which flows from one to the other, could prove a factor in the new coalition. The Janata Dal-regional coalition forged last night embraces both Karnataka's chief minister and a host of Janata Dal MPs from the state along with the Dravida Munnetra Kazhagam party which, in league with ex-Congress dissidents, swept Tamil Nadu in the election and holds a total of 37 seats. They may prove awkward bedmates.

The dealmaking has resembled three-dimensional chess, where the position of regional parties in their own states has been a big factor in making national alliances. The CPI(M) yesterday said it could not join a coalition backed by Congress, for example, because Congress is its chief political opponent at state level.

Likewise, with state-level elections due this autumn in the northern state of Uttar Pradesh, parties such as Mr Yadav's Uttar Pradesh-based Samajwadi Party and the low-caste Bahujan Samaj Party, which won 10 seats and is also largely Uttar Pradesh-based, will have made alliances with a clear eye on what might help them make later gains at state level.

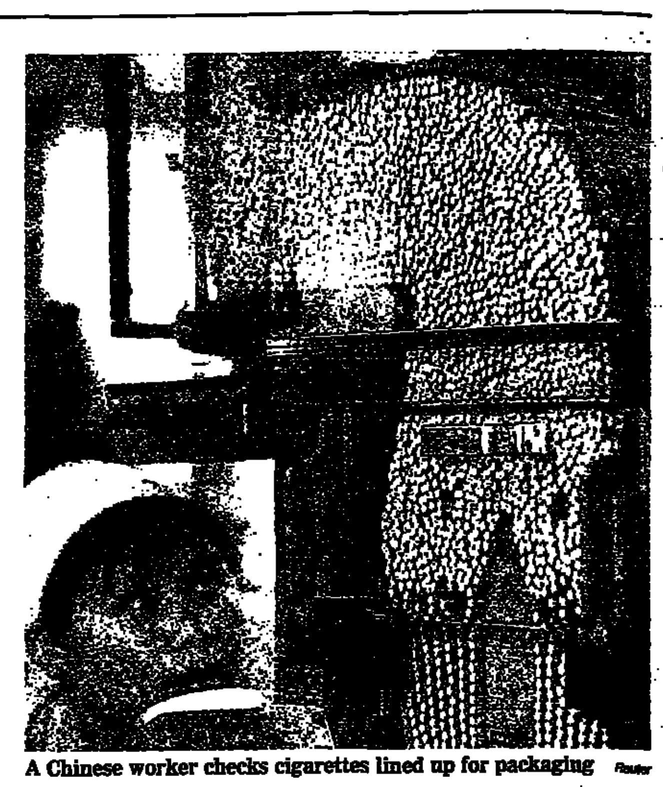
Amid such complexities, almost any permutation appeared possible for much of yesterday. The notion of a BJP-supported Congress government was at one point floated in the living room of one top politician. The name of Mr Chandrababu Naidu, thrown to centre stage from being a little-known state politician in Andhra Pradesh, was seriously mooted in another as a potential prime minister. No one ruled out the possible return of the wily Mr Rao.

And the game is not over. The next move lies with India's president, who must decide whether to invite the BJP as biggest party, or the last-minute Janata Dal-regional front, to try to prove a majority in parliament. If he chooses the BJP, this might test severely the still-wet cement binding the regional parties and the Janata Dal.

Mark Nicholson

Chinese smoking curbs fail to break the habit

By Tony Walker in Beijing



A Chinese worker checks cigarettes lined up for packaging Reuter

China may have declared a war of sorts on its smokers, with a ban on smoking in public places coming into effect in Beijing today, but the authorities are far from persuading people to break the habit in a country which accounts for about 30 per cent of the world's total cigarette consumption.

At the Beijing No.1 Department Store on the city's busy Wangfujing Street, cigarette counter staff said there had been "no evident drop in sales" ahead of the May 15 ban. Nor was there any sign on Beijing's streets that smokers were preparing to quit. Fines of Yn10 ($1.20), half the cost of a pack of imported cigarettes, seemed unlikely to be much of a deterrent.

A year-old ban on advertising in the media, including displays on hoardings in public places, has done little to curb the smoking habit in a country where cigarettes act as "currency" for buying petty favours from officials.

Marlboro Man may have staged his last ride across China's advertising billboards, but his image lives on in the red-and-white silhouette of a soccer player, emblem of the national league whose games are broadcast into millions of homes by Mr Rupert Murdoch's Star TV network.

The official China Daily Business Weekly reported at the weekend that 35 per cent of the population over 15 smoke, and numbers of smokers are rising at an annual rate of 10 per cent, against an annual decrease of 1 per cent in many industrialised countries.

Men outnumber women smokers, with 61 per cent of the male population over 15 having the habit, and 75 per cent over 35. Only about 2 per cent of females are smokers, but the percentage is rising.

These percentages translate into consumption of 1,640bn cigarettes a year by China's 300m smokers, or 25 per cent of the world's total. Profits and taxes to the state totalled Yn71bn ($8.5bn) in 1995, the state's single biggest source of revenue for the ninth consecutive year.

Like their counterparts in the west, China's cigarette makers (there are 180 factories producing 900 brands) face an increasingly active anti-smoking lobby which has won high-level support. Premier Li Peng recently banned smoking in the Great Hall of the People.

The fading from the scene of Deng Xiaoping, China's ailing patriarchal leader and most famous smoker, may have bolstered a growing anti-smoking faction in the leadership.

A strong argument for a more rigorous anti-smoking stance is the growing cost of health services. China's Academy of Preventive Medicine estimates losses directly or indirectly attributed to smoking in 1993 reached Yn65bn, double the amount of tax levied on the tobacco industry that year.

The World Health Organisation is helping China in its campaign, sponsoring centres across Chinese cities aimed at helping people cure cigarette addiction. Some 26 cities, including Shanghai, Nanjing and Guangzhou, have joined Beijing in banning smoking in public places.

Although sales of foreign brands constitute only a fraction of the market at this stage, demand for premium products is rising rapidly. Hence, the world's big manufacturers are making strenuous marketing efforts: Philip Morris with its Marlboro brands, RJR Nabisco with Salem, and BAT with Kent and other brands.

US, Japan rule out early food aid to N Korea

By John Burton in Seoul

The US and Japan yesterday ruled out immediate food aid to North Korea – a day after United Nations agencies warned the food situation there was worsening.

Washington and Tokyo appeared to endorse the position of South Korea that no food aid should be provided until North Korea agrees to participate in proposed four-party talks on a permanent peace arrangement on the Korean peninsula.

Officials from the US, Japan and South Korea announced the food policy following discussions on the South Korean resort island of Cheju.

South Korea officials indicated there was no need to rush aid since the serious food shortage faced by Pyongyang would not lead to an "African-style famine" or the immediate collapse of North Korea.

Two UN aid agencies, the World Food Programme and the Food and Agriculture Organisation, issued a "special alert" on Monday stating the North Korea food shortage "is becoming increasingly desperate" and "the consequences are likely to be devastating for large parts of the population".

"We believe all measures, including economic assistance to North Korea, could be discussed in four-nation talks, but we might be sending a wrong signal if we provide incentives in advance," explained one South Korean official.

The US and South Korea a month ago proposed peace talks to include the two Koreas, the US and China. North Korea has not yet responded to the proposal.

The consensus reached yesterday among the three allies, however, may only be temporary.

Mr Kenzo Oshima, the Japanese delegate, suggested that Tokyo was still considering taking independent steps to help break North Korea's international isolation if this would contribute to stability on the Korean peninsula.

US officials have warned that the North Korean food shortage carries serious risks, including causing a possible desperate attack on South Korea.

South Koreans step up push to join the rich countries' club

Seoul is wooing the OECD, write **John Burton and Peter Montagnon**

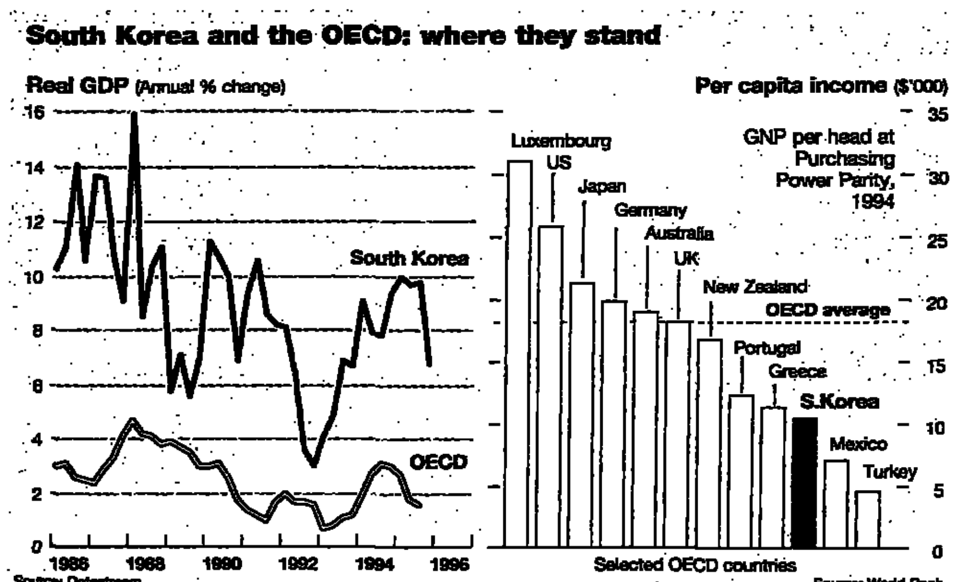
Lunchtimes have become busy at the Paris headquarters of the Organisation for Economic Co-operation and Development.

One western official says he has had six invitations from South Koreans anxious to press their case for membership of the so-called rich countries' club. So keen are they to join the OECD that they have "even taken Norwegian officials out," he adds disdainfully.

When a Korean team visited Paris last month to discuss its membership application it included 38 officials instead of the handful expected.

The intensive wining, dining and lobbying are a sign a crunch time is looming in a process which Korea hopes will culminate in its accession being complete before the end of the year.

But even while softening up OECD members with lashings of pickled cabbage and barbecued beef, Korean officials are aware some hard arguments remain before it is home and dry. Over the summer South Korea must come up with some concrete liberalisation proposals, particularly in its financial markets, if it is to pass the membership test.



Though Japan is particularly sympathetic to South Korean membership, most OECD members are reluctant to buy the argument that Korea should be allowed to join just for the sake of better regional balance.

Besides Japan, only Australia and New Zealand are Pacific Rim members, leaving the OECD with a Eurocentric appearance, but the OECD insists the liberal principles to which it adheres should not be sacrificed for political or diplomatic expediency.

The snag for Korea is that, while fully industrialised status which comes with OECD membership would mark the pinnacle of economic achievement, it would come at a price of profound change in the way its hitherto tightly controlled economy is run.

"The Korean government will only accept membership conditions if they are beneficial to the Korean economy and help strengthen Korea's competitive edge and Korea's globalisation efforts," said Mr Rha Woong-bae, deputy prime minister for economic affairs.

Among the changes still being sought by the OECD are:

- **Financial liberalisation.** OECD members want full opening of the bond market to foreign investors and borrowers, and a rise in the foreign investment ceiling for listed companies to 25 per cent at least. They are also seeking a firm date for currency convertibility, and removal of restrictions on overseas borrowing by Korean companies. Korea is worried these measures will lead to an inflationary inflow of capital and rapid appreciation of the won. Western officials counter the process could be managed by a reduction in Korea's high interest rates.
- **Relaxed rules on mergers and acquisitions.** Korea limits individual foreign shareholdings in listed companies to 4 per cent to prevent hostile takeovers, although friendly acquisitions are permitted.
- **Abolition of import ban on Japanese goods,** including most consumer items, notably cars and consumer electronics.
- **The end of foreign investment restrictions.** Although Korea claims 95 per cent of business sectors are open to foreign investment, some key areas remain closed, including the media, oil refining, legal services and some financial services. Foreign banks may only have branches in Korea, not subsidiaries, while restrictions on foreign ownership of gambling and even golf courses are further niggling irritants.
- **Revision of labour laws.** Though this is not a strict condition of membership, some OECD countries regard present Korean practice as incompatible with the OECD stand on human rights. Korea bars more than one union in a company and prevents third-party intervention in labour affairs.

Wining, dining and lobbying have intensified

Korea recently introduced measures to improve its chances of gaining OECD membership this year. It has engineered a fall in interest rates to speed financial liberalisation. A new schedule for opening of financial markets is expected in July.

It is also considering removing more items from its import list of banned Japanese products, already being whittled down from 258 items in 1993 to 129 products by 1998.

Some western officials believe that, with parliamentary elections out of the way, President Kim Young-sam is trying to give the membership application new momentum. But complying with OECD wishes involves politically sensitive decisions.

While large companies might relish freedom to raise capital at cheaper rates abroad, the government is concerned it would no longer have much leverage over businesses such as Hyundai, Samsung and Daewoo which have grown powerful under its tutelage. Small businesses are concerned they would lose special access to credit and face a harsher competitive environment.

There is also a broader fear that the end of a ban on hostile foreign takeovers will allow Japanese investors to gain control of Korea's main companies, while abolition of import restrictions on Japanese products will drive domestic competitors out of business.

Above all, there is concern in parts of the bureaucracy, notably the Finance Ministry, that market-oriented reforms will reduce its power to manipulate the economy. Despite the flurry of activity on the part of Korea, that leaves some western officials sceptical that the membership application will succeed this year.

But many are keeping an open mind. "It's amazing to see how quickly the Koreans can move when it's necessary," said one official involved in the discussions. As to loss of control over the economy, that is no longer the issue, he added. "They've decided on change. It's more a question of the pace rather than the direction."

ASIA-PACIFIC NEWS DIGEST

Japan machinery orders edge up

Japanese companies spent 2.4 per cent more on machinery in March than in the same month last year, the slowest growth for six months, but have since stepped up purchases, official data showed yesterday.

Machinery orders, an accurate advance indicator of overall corporate investment, are recovering more slowly than in previous economic upturns, the government's Economic Planning Agency (EPA) suggests.

This adds weight to many private-sector economists' belief that the Bank of Japan will continue to keep monetary conditions loose for the time being, to allow the recovery to take root, though it may allow overnight money market rates to rise slightly above the official discount rate of 0.5 per cent.

The March machinery result, excluding the volatile shipbuilding and power companies, leaves orders down by 1 per cent in the first quarter to March, against the last quarter of 1995. But the 12-month moving average rose 9.7 per cent. The EPA predicts a 4.9 per cent quarter-on-quarter rise for the three months to June. *William Dawkins, Tokyo*

Hiring ban on foreigners lifted

Kawasaki City, near Tokyo, has become the first Japanese municipality to lift a ban on hiring foreigners, in an apparent response to growing calls from Koreans born in Japan to be hired as civil servants. The decision has provoked a row with central government, which fears the decision could prompt similar moves by other municipal governments.

Municipal governments have legal authority over regulating personnel affairs, but other local governments such as Osaka and Kochi recently shelved plans to scrap the nationality rule under pressure from the home affairs ministry.

Tokyo has opposed opening public servants' jobs to foreign nationals as it feels those involved in wielding administrative authority must be Japanese. *Emiko Terazono, Tokyo*

Vietnam debt talks begin

Vietnam yesterday began a fourth round of talks with London Club creditors to reschedule about $830m of debts, mostly owed to Japanese banks. Mr Cao Si Kiem, Vietnam's central bank chief, said the two sides could reach agreement at the latest session, helping cut Hanoi's sovereign credit risk and unlocking much-needed bank lending for infrastructure projects. Both sides are seeking a debt-for-bonds settlement.

Hanoi has been insisting the London Club forgive 50 per cent of debt. The group, led by Bank of Tokyo and Australia and New Zealand Bank, is only likely to agree to forgive an element of the principal, but not interest and penalty interest, accounting for half total arrears. The two sides are still far apart but Hanoi is under considerable pressure to compromise.

Vietnamese debt was trading at 82 US cents on the secondary market in London yesterday. *Jeremy Grant, Hanoi*

Call for calm on Thai bank

Thailand's central bank yesterday set about preventing the collapse of the Bangkok Bank of Commerce (BBoC), a medium-sized local bank, which has suffered a three-day run on deposits after alleged financial improprieties were disclosed in the Thai parliament. Confidence in the central bank has fallen after it was claimed it failed to inform the public in time or take legal action.

Mr Surakiart Sathirathai, finance minister, said new management would be in place later this week. The central bank said other domestic and foreign commercial banks had agreed to lend money to the BBoC if needed.

Yesterday the central bank called for calm and told depositors to be confident in central bank measures to resolve BBoC's problems. *Ted Bardacke, Bangkok*

Pakistan union chiefs arrested

Pakistan's top federal investigation agency, under orders from the central bank, yesterday arrested at least 11 top union leaders of United Bank, the country's second largest public-sector bank, on charges of fraud.

Mr Abdul Aziz Memon, an MP and president of the UBL's staff union, was among those arrested. Another 12 officers were expected to be arrested last night and today, central bank officials said.

Central bank governor Muhammad Yaqub denied the arrests would create uncertainty over plans to privatise UBL or Habib Bank, Pakistan's largest bank. *Farhan Bokhari, Karachi*

NEWS: WORLD TRADE

Canada keeps UK guessing on subs

By Bernard Simon in Toronto

Britain's defence secretary, Mr Michael Portillo, has failed to secure a deal to sell Canada cut-price second hand diesel-electric submarines during a visit to Ottawa.

Canada said it would keep open an option to buy the four Upholder submarines but the signs are that Ottawa is unlikely to go ahead with the C$400m (US$292m) purchase for the time being.

British officials have become increasingly frustrated at Canada's indecision after almost two years of discussion.

Mr Portillo said: "I don't know whether the file is open or closed, but what I know is that I'm going to do the deal with the first person who says snap."

Canada's exclusive option to acquire the almost-new vessels expired last December. Since then, the UK has entered negotiations with several other countries, including Portugal, Chile and South Africa. However, none has so far stepped forward with a firm offer.

The four Upholders, which cost almost £1bn (US$1.5bn) to build, were put up for sale after the Royal Navy opted for an all-nuclear submarine fleet in the early 1990s.

Canada has been toying for some time with a replacement for its three 30-year-old Oberon submarines. Other Nato members have pressed Ottawa to buy the Upholders, which would allow Canada to maintain a significant naval presence in the alliance. The submarines would also be used for coastal patrols, including surveillance of disputed North Atlantic fishing grounds.

The UK has offered the submarines to Canada at what it considers to be a bargain price, with payments spread over 10 years. Part of the cost would be paid in the form of training for Royal Navy submarine crews.

Mr David Collenette, Canada's defence minister, is in favour of the deal. He has said the cost of the new submarines would be largely met by savings on operating and maintaining the ageing Oberon fleet.

However, Mr Jean Chrétien, the Canadian prime minister, has so far been reluctant to go ahead with the purchase, at a time when government spending in politically sensitive areas such as welfare and healthcare is being cut. In addition, the military is currently under intense scrutiny over incidents stemming from the UN peacekeeping mission in Somalia in the early 1990s.

Belarus finds role as duty-free back door

Acting as conduit for Russian imports has brought some colour to grey Minsk, writes Chrystia Freeland

Most of Minsk, capital of placid Belarus, is a grey throwback to the Soviet era, complete with massive statues of Lenin and bare shop shelves.

But one busy café, tucked away in the old city, is a stark exception: nearby streets are crowded with Mercedes and BMWs, most of them bearing foreign licence plates, and leather-jacketed men speak fiercely into mobile telephones while their Chanel-clad girlfriends sip cappuccinos.

Much of the buzz at this *nouveau riche* enclave is about one of the only thriving sectors of the Belarusian economy: the small Slavic state's expanding role as a duty-free corridor for importing western goods into Russia, which is joined to its neighbour by a customs union.

At a time when Russia, under pressure from international financial institutions, has officially sought to close tax loopholes, neighbouring Belarus' quiet emergence as Russia's tax-free back door is an example of the hidden financial motivations which often underlie politics in the former Soviet Union. Some local observers think the trade relationship is one reason why Russia is seeking to form a union with Belarus, despite the likely political and economic costs of merging with the impoverished republic.

In the early, chaotic aftermath of the collapse of the Soviet Union, Russian importers could avoid stiff duties and tariffs without resorting to a Belarusian corridor. A series of nobly named Russian organisations, ranging from the Society for the Deaf and the Afghan Veterans' Association to the more recently active National Sportsmen's Fund (NFS), were granted the right to import a wide range of goods duty-free.

The official justification for the government's largesse was that the tax breaks would help finance worthy causes the state could no longer support. But domestic and foreign critics, including the International Monetary Fund, attacked the schemes as a way of enriching government cronies.

The import privileges – which became the main conduit for many imported consumer goods – also came under fire as a drain on the cash-strapped Russian treasury's revenues, costing the government some Rbs10,000bn ($2bn), according to one recent estimate.

After a protracted battle between the liberal and hardline factions in the Kremlin, Moscow last year formally abolished the system of "subsidised importers", but not before paying more than Rbs3,000bn in compensation to organisations hurt by the change.

But, indirectly, the Kremlin also created an escape route for the subsidised importers by entering last year into a full customs union with Belarus.

According to Mr Arkady Ftits, a Russian businessman who imports food into Russia, Belarus and Kazakhstan: "When they began to close the NFS we began to think of what else we could do... We found that it was very comfortable here in Belarus."

Belarus became comfortable for importers last year thanks to Mr Alexander Lukashenko, the country's maverick president, who decided to follow his neighbour's example and create his own system of duty-free imports.

Last November he signed a presidential decree, stamped "not for the press", which granted Torgexpo, a Belarusian company, the right to import a wide range of goods without paying regular duties and import tariffs.

The next day Torgexpo signed a contract with Union Distribution, an Isle of Man registered company, to buy some $500m worth of various foods, alcohol and consumer goods. To date, according to Mr Lukashenko, some $72m worth of goods has been imported through Torgexpo, yielding $16m for a special "presidential fund" which supports cultural and athletic projects.

Western observers, opposition politicians and some businessmen involved in the scheme allege some money was also funnelled to Belarusian officials through offshore bank accounts, but Mr Lukashenko strongly denied this.

This spring, however, the Torgexpo system began to break down. Some 500 train wagons of vodka, meant to be transported to Russia through Belarus, were stopped by local authorities and Torgexpo has stopped taking new commissions.

Mr Lukashenko said the bottleneck was created because some businessmen tried to import goods into Russia duty-free, without giving the Belarusian government its share of the profits.

"Some of the businesses – the swindlers – tried to get around me. So I went and arrested 500 train wagons," Mr Lukashenko said. The Belarusian leader said the businesses owe the president's special fund "$3m, not much" and that "until they pay their debt to the last kopek" he would not release their cargoes.

But several businessmen involved in the trading scheme tell a different story. They said the shipments were stopped by Russian authorities, incensed because Torgexpo was not sharing its revenues with Russian special import funds.

But both businessmen and politicians said they were hopeful a new subsidised importer would soon appear to take Torgexpo's place.

Mr Lukashenko complains that Russia, his closest ally, does not always treat Belarus fairly on the delicate issue of import privileges. He said Russia, despite its formal pledges to end the practice of subsidised importers, continued quietly to grant some organisations the right to import duty-free.

Moscow newspapers say one beneficiary is the Russian Orthodox Church, and a businessman at the chic Minsk cafe said earlier this month that he was organising a shipment of cigarettes brought in duty-free through the church.

Alexander Lukashenko: signed decree granting duty-free import rights to Belarus company James Hill

WORLD TRADE NEWS DIGEST

Airports face super-jumbo bill

Airports will have to spend more than $100m on modifying runways and taxi areas to accommodate the new generation of 600-seater "super-jumbo" aircraft planned by manufacturers, according to Airports Council International. The council, which represents 430 airports worldwide, said boarding bridges would have to be moved and extra baggage handling systems, customs, immigration and security facilities installed.

Boeing and Airbus are both planning to build large aircraft early next century. The council said introduction of the new aircraft would lead to a reduction in airport capacity, as airports would have to increase the intervals between landings to avoid the wake turbulence that the large aircraft would cause. *Michael Skapinker, Aerospace Correspondent*

Suzuki raises Hungarian stake

Suzuki of Japan said yesterday it would increase its stake in a Hungarian joint venture, Magyar Suzuki, from 49.9 per cent to 77.7 per cent to boost its presence in the European car market. Magyar Suzuki is a joint venture between Suzuki, Auto Konszern of Hungary and Itochu, the Japanese trading company. The Hungarian government will keep its 2.8 per cent stake in Magyar Suzuki.

In the first year of operation, Magyar Suzuki produced 3,500 units of the Swift model, a small 1,000cc-1,600cc car based on a Japanese model called the Cultus. Production has since increased to 43,000 units last year and Suzuki expects to make 50,000 in the year to March 1997.

The joint venture company, which exports much of its production to western Europe, has about 18 per cent of the Hungarian market. *Michiyo Nakamoto, Tokyo*

Danang resort venture at risk

The largest approved US investment in Vietnam, a $234m joint venture tourist resort at China Beach on the central coast, is in jeopardy because of financing difficulties. A senior Vietnamese member of the joint venture board said yesterday that the US investors would have to come up with $2m by tomorrow or risk having the resort's licence revoked.

Maryland-based BBI Investment Group, backed by private investors in the US, was supposed to have paid the first $2m of a projected $64m investment by last September.

It received a licence to develop the area in 1994, but has run into trouble over financing since then. BBI has a 67 per cent stake in the venture, with the local tourist authority holding the rest. The project includes a hotel and luxury villas on the beach at Danang, a coastal town favoured by US soldiers for recreation during the Vietnam war. *Jeremy Grant, Hanoi*

NEWS: UK

Senior minister scorns Eurosceptics

By John Kampfner at Westminster

President Jacques Chirac of France arrived in Britain yesterday to sharply discordant strains within the Conservative party about European integration. Mr Kenneth Clarke, the chancellor of the exchequer, stepped up his campaign in the cabinet with a ringing endorsement of the European Union and trenchant criticism of Eurosceptics in his party.

"When you consider Britain's future in Europe, you are considering Britain's economic and political well-being; the two are inextricably linked," Mr Clarke told the German-British Chamber of Industry and Commerce.

He said it would be "absurd" to imagine that the UK could prosper outside the union. "There is much talk about some imaginary Swiss option; Norwegian option; Taiwanese option; or Singapore option. But none of these are options which suit Britain," Mr Clarke said.

His call for a more positive UK role was the latest in a series of speeches from Mr John Major, the prime minister, Mr Michael Heseltine, deputy prime minister, and others.

Pro-Europeans have taken heart from Mr Major's decision to hold the line in spite of growing anxiety about the electoral challenge of Sir James Goldsmith's Referendum party.

Mr Clarke lampooned Sir James's suggestion that Britons should be asked in a referendum whether they preferred to be ruled by Brussels or Westminster. "If Rip van Winkle woke up today and read his morning paper he would think Britain was about to be invaded by Belgium," Mr Clarke said.

Mr Brian Mawhinney, the party chairman, took a markedly different line. In a speech last night, he said the Tories would go into the next general election as "the referendum party" – giving priority to the Conservatives' pledge to hold a plebiscite on a single currency if the cabinet agreed to join it.

Mr Mawhinney added: "If you want to reduce Britain to the level of a poodle, trotting at the heels of others, letting them set Europe's agenda, then you can vote Labour."

Labour will today exploit Conservative rifts during a debate in the House of Commons on the European Union's Common Agricultural Policy, which is seen by many Eurosceptics as the epitome of EU malign intent.

Several Conservatives have threatened to vote with the opposition at the end of the debate tomorrow, their anger fuelled by the continuing EU ban on British beef. However, the result will be a formality as government business managers have allowed Conservative MPs the night off.

The UK beef crisis will figure prominently in Mr Chirac's discussions with Mr Major.

EU veterinarians may agree to ease 'mad cow' curbs

The British government said last night it hoped the European Union would agree today to end the export ban on some beef products, FT reporters in London and Brussels write. Ministers believe they have secured the support of France in advance of today's meeting of the EU's standing veterinary committee, which will consider ending the ban on exports of tallow, gelatine and bull semen.

The committee will consider the plan put forward last week by Mr Franz Fischler, EU commissioner for agriculture, under which Britain would be obliged to introduce tougher processing methods for gelatine and tallow as a precondition to the ban being lifted on these products. A decision by the veterinary committee is seen as an important first step to reducing tensions in the UK on the issue.

"We think we can count on the support of France," said one UK minister. "At lot really depends on what the southern European countries do."

However, Britain is by no means assured of victory at the meeting today. A number of countries, particularly Germany, remain opposed to easing the embargo. Spain, Austria, Belgium and the Netherlands have also shown reluctance to ease the ban.

Thefts of building equipment up sharply

By Andrew Taylor, Construction Correspondent

Police and private-sector plant theft consultants combined yesterday to launch an initiative against increasing thefts of construction equipment.

At least £500m ($760m) of equipment is estimated by the UK industry to be stolen each year. Plant such as road rollers and compacters and compressors stolen in the UK have been discovered operating recently in Germany, Malta, Cyprus and Portugal.

The National Plant Register, launched in 1992 to help police identify the owners of stolen construction equipment, says requests to identify property rose by 25 per cent last year.

Officers from more than 20 police forces, including Interpol, have joined with NPR in an effort to persuade plant owners and operators to be more vigilant in securing equipment and making it more readily identifiable if stolen.

The campaign was launched yesterday at Site Equipment Demonstration 96 at Milton Keynes in central England. Mr Ken Fulford, director of NPR and a former plant and transport manager at Yorkshire Water, said: "Construction equipment theft is very big business. A lot of plant is stolen to order. Ferries taking equipment abroad are often booked before the plant has been stolen."

NPR, started by two former police officers, Mr Bob Harding and Mr David Rayner, has identified some £14m of stolen equipment for former owners since they began the business 3½ years ago.

Officers of the West Midlands stolen vehicles squad at the exhibition said yesterday: "It is vital that we are able to identify the owner of a piece of equipment so we can prove that it has been stolen. If equipment is not marked and registered we may have no choice but to hand it back to a possible criminal."

In a recent instance police in Lancashire in north-west England stopped a van carrying a mini excavator. NPR managed to trace it to a Lancaster engineering company. "The excavator had been lifted over a perimeter fence by a crane and the company at that stage did not know that it had gone," said Mr Fulford.

NPR was involved in an operation by West Yorkshire police when £1.5m of equipment was identified, "some of which was being shipped in stolen frozen food lorries and was found being used in Mediterranean countries".

NPR's scheme is supported by insurance companies which offer discounts to companies using the register.

Pioneer from Japan praises rise in quality

By Chris Tighe in Newcastle upon Tyne

When NSK, the largest maker of bearings in Japan, decided to open a factory in Britain, it called the project Yukiaru ketsudan, which means "bold venture". The factory in Peterlee, north-east England, was Britain's sixth Japanese investment when it was announced in 1974; there are now more than 220.

But the NSK project was the first big integrated manufacturing operation set up by the Japanese mechanical engineering industry in Britain, a trail-blazer by more than a decade for Nissan and other entrants.

NSK was bold in choosing an area of England in which coal mining still dominated the physical and mental landscape. Now, exactly 20 years since the plant sent its first shipment of bearings to mainland Europe, coal mines have vanished from the area while NSK employs 800 people at its bearings and forging plants in Peterlee.

A further 250 people work at nearby factories making steel ball and steering column components. Those factories are run as joint ventures with AKS and Torrington.

NSK's total Peterlee investment now exceeds £150m ($228m). It supplies consumer goods, industrial and automotive markets, and customers include Bosch, Valeo, Black and Decker, Rover, Nissan and Honda.

"If you think back 20 years ago in Peterlee, I questioned how many good engineers would come to work for a Japanese-based company," says Mr Toshio Arata, now chairman of NSK. "I was not particularly confident we would go beyond 500 people."

As senior managing director in the early 1970s, Mr Arata drove forward the company's international expansion, establishing plants in Brazil and the US as well as England. Now back in Peterlee for 20th anniversary celebrations, Mr Arata says one of the biggest changes has been the improved quality of UK suppliers' products and service.

Peterlee, the manufacturing arm of NSK Bearings Europe, now has annual sales of $120m, which is 3 per cent of group turnover. It contributes $3m to company profits, the equivalent of 4 per cent of total profits.

"For some items, suddenly it's world class parts which are available in the UK," says Mr Arata. "In terms of cost and quality, suddenly in the last 20 years the UK government and industry itself and the management of the companies have changed for the better, improved themselves, and are trying very hard to compete."

Since the Peterlee investment decision, NSK's European presence has been boosted by acquisition in 1990 of precision bearings maker UPI, also known by its brand name RHP. The NSK-RHP Europe operation is run from Nottingham in central England, with manufacturing in the UK, Germany and Switzerland.

Toshio Arata at Peterlee: "For some items, suddenly world class parts are available in the UK"

MPs to grill former bank chairman today

By James Blitz and Nicholas Denton at Westminster

THE BARINGS COLLAPSE

Mr Peter Baring, the former chairman of Barings bank, has been privately coached by a former Conservative party minister over how to answer questions on the bank's collapse when he appears before a House of Commons committee today. The hearing will be the first time that Mr Baring has commented publicly on the fate of his family's bank since the collapse. He said then that Mr Nick Leeson, the trader who caused the losses of £830m ($1.26bn) which brought down the bank, was part of a conspiracy.

It emerged yesterday that MP Mr Edward Leigh, a former trade minister, had recently given Mr Baring a short session on how to answer questions from MPs. Mr Leigh, who is not a member of the Treasury committee, yesterday confirmed that he had provided an unpaid hour-long tutorial to Mr Baring. One Conservative member of the Treasury committee privately expressed astonishment at Mr Leigh's move.

It is understood that Mr Leigh was asked to provide the briefing by Ludgate Lord, the public affairs arm of a company called Ludgate Communications. The company was engaged by ING Barings, but it was unclear last night who was paying its fees.

Mr Leigh made clear that his briefing had focused on how any private individual should approach the task of appearing before a Commons committee.

Mr Baring and Mr Andrew Tuckey, the bank's former deputy chairman, will answer questions together. They will be followed by Mr Peter Norris, former chief executive, and Mr Geoffrey Barnett, former chief operating officer.

Conservative and Labour MPs have privately indicated that the focus of the committee's report will be on why the monetary authorities in Singapore produced a report that was highly critical of the role of Baring's senior management.

Mr Norris last week received a three-year ban from the City and a £10,000 fine from the Securities and Futures Authority, but the other three executives were all cleared by the regulator.

Shares in British Gas fall by a further 6 pence

By Patrick Harverson in London

Shareholders of British Gas were still reeling yesterday from the industry regulator's proposal on Monday for large cuts in the prices charged by Transco, the group's pipeline business.

The shares fell another 6 pence to 195p on the stock market, taking the two-day decline to 15 per cent.

Among those most concerned in the City of London by the Ofgas proposals were the income funds, the group of institutions which specialise in offering clients higher-than-average yields by investing in companies that pay big dividends.

They have been keen investors in British Gas shares because, despite erratic profits and a poor share price performance, it has maintained an aggressive dividend policy for the past five years.

However, the tough new price controls recommended by Ofgas will almost certainly force the group to review its dividend because of the impact they will have on cash generation.

"The proposals will effectively reverse the strong positive cash flows Transco enjoys at the moment," explained one analyst. "Under the Ofgas assumption of revenues, Transco will move from being cash positive to cash negative."

British Gas is expected to maintain its dividend at 14.5p in 1996 – the fifth consecutive annual dividend of more than 14p. But, with the Ofgas price controls due to take effect next year, analysts are predicting a big cut in the 1997 dividend when it will be paid by Transco, which is due to be separated from its parent in a demerger next year.

Assuming Ofgas's recommendations are not rejected by the Monopolies and Mergers Commission, analysts believe the dividend reduction could be 50 per cent or larger.

Using the range for Transco's cash flows predicted by Ofgas under the first year of its new regulatory pricing regime, Mr Simon Flowers, analyst at NatWest Securities, estimated the company would have between £96m ($145.92m) to £271m of net cash flow to pay for dividends after the interest bill had been met.

That is well below half the amount expected to be available for dividends this year, and compares with the £637m paid out to shareholders in 1995. On that basis, NatWest's most optimistic forecast is a 1997 dividend of 6.2p per share, excluding any contribution from Transco's exploration and production business.

Proposals by Ofgas, the gas industry regulator, for tougher price controls on Transco, the pipeline arm of British Gas, do not go far enough, Transco's main customers said yesterday, our Resources Editor writes.

The Gas Forum, which represents large gas shipping companies which use the pipeline system, said it was disappointed that the gas industry regulator had not accepted the forum's industry report which put the case for deep cuts in Transco's revenues.

Rail valuation 'down $760m'

The opposition Labour party's threats to impose tougher regulation on a privatised Railtrack have cut more than £500m ($760m) from the company's projected stock-market valuation, stockbrokers Kleinwort Benson said yesterday, **Our Transport Correspondent writes.**

The government has set the indicative price for Railtrack, which is due to be floated on the London market on Monday at 350 pence to 390p per share, a total of £1.75bn to £1.95bn. "Were it not for the political risk, we would have expected a yield of 5 per cent to 6 per cent and a price in the area of 500p," Kleinwort said.

It expects the partly paid shares to start trading at a slight premium at 210p to 215p during the first week of dealings compared with the initial payment of 200p to 190p for private UK investors who enjoy a 10p discount. "The initial attractions of the shares are extremely clear," Kleinwort said. "It is, however, almost completely impossible to take a long term view of the shares given the political risk."

Investors might find it more attractive to invest in the rail industry through the franchise holders of passenger services which will benefit immediately from any increase in passenger numbers, Kleinwort suggested.

UK NEWS DIGEST

Inflation target 'looks optimistic'

Mr Eddie George, governor of the Bank of England – the UK's central bank – warned yesterday that the chancellor of the exchequer would probably have to raise UK interest rates at some point if he was to hit his inflation target in two years. In its latest Inflation Report, the Bank said it was "marginally more likely than not" that underlying inflation would overshoot the government's target in two years without a rise in interest rates. But Mr George said on a visit to Milan that it was too soon to be confident of the forecast.

The Bank believes that weak export markets and excess stocks of unsold goods could still prompt a sharp slowdown in economic activity, although the risk of this had diminished over the last three months. The slowdown in "hard-core" Europe is expected to be relatively short-lived following cuts in interest rates there.

The Bank predicts that underlying inflation in the UK – excluding mortgage interest payments – will fall from its current 2.9 per cent to below 2.5 per cent over the next year, reflecting the recent weakness of economic growth. Inflation is then expected to pick up again to around 2.5 per cent in March 1998 as growth accelerates, driven by stronger consumer spending and investment.

The Bank warned the chancellor that policy had to remain forward looking and focused on the target for inflation of 2¼ per cent or less.

The report had little impact on interest rate expectations in the financial futures market. Most economists are more pessimistic about the prospects for inflation than the Bank and expect interest rates to rise between a quarter and half-point in the second half of the year.

Robert Chote in London and Andrew Hill in Milan

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Exchange body restructures

The London Clearing House (LCH) is putting the final touches to a restructuring plan which will allow its members to acquire a majority stake, as well as inject fresh capital into the business. The LCH, which clears and settles transactions for London's futures and options exchanges and for Tradepoint, the electronic share trading system, is now owned by six UK banks.

Its 172 members, which include the derivatives arms of some of the world's biggest investment banks, are expected to be asked to stump up some £37.5m ($57m) in new equity capital, giving them a 75 per cent stake in the business, according to a report in Futures and Options Week, a trade publication.

London's four futures exchanges – the London International Financial Futures and Options Exchange (Liffe), the London Commodity Exchange (LCE), the London Metals Exchange (LME) and the International Petroleum Exchange (IPE) – would be asked to contribute a further £12.5m for the remaining 25 per cent stake. The proposal envisages that the existing owners would sell their stakes. In addition members would also deposit money with the LCH to provide a £150m clearing guarantee fund, which meets payments to due if a clearing member defaults. This fund is currently provided by the banks. The restructured fund will be governed by a board of 12 directors – one representative from each of the exchanges and nine from the clearing member firms.

Richard Lapper, London

Company seeks US backing

Ionica, a company based in Cambridge in central England, launched its innovative radio telephone technology to compete in the residential market yesterday. Mr Nigel Playford, the chief executive, said line rental would be 20 per cent cheaper than British Telecommunications, while all UK and most international calls would be 15 per cent below BT's standard rates, no matter the time of day or day of the week.

Ionica has already raised £150m ($228m) in venture capital and intends to raise a further £150 next month through a high yield bond offering to be marketed chiefly in the US. The lead bank in the issue will be Morgan Stanley.

Ionica intends to float both in the UK and on Nasdaq next year. Mr Playford said the nature of the technology, developed in conjunction with Northern Telecom of Canada, means that only if the the service proved successful would more funds be required to develop the infrastructure.

Alan Cane, London

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Scottish bank predators warned

Mr Michael Forsyth, Scottish secretary, issued a veiled warning to potential predators of Bank of Scotland, whose future ownership is uncertain following the decision of Standard Life, the life assurance company, to sell all or part of its 32.2 per cent stake. Mr Forsyth, who yesterday met Sir Bruce Pattullo, governor of the bank, said a hostile takeover bid for the bank would be "extremely unwelcome".

Asked by BBC Radio if he was "standing up against market forces," Mr Forsyth said the government considered market forces were "a very useful servant but they're not our masters". His remarks may be seen as implying that he would press in cabinet for an MMC reference of any bid.

James Burton, Edinburgh

QE2 bound for refit in UK yard

The QE2, the cruise liner, is to be refitted at a UK shipyard for the first time in more than 10 years as part of a £12m ($18.24m) contract awarded by Cunard, the loss-making cruise operator. The company, which paid £7.5m compensation to passengers following a bad refit by Blohm and Voss of Germany two years ago, has placed the order with A&P Group, the UK's largest ship repair and conversion company. After its last refit Cunard faced a wave of customer complaints and legal action after the ship sailed from Southampton to New York with the work only partially completed.

Tim Burt, London

Investment data 'inward-looking'

UK companies maintained their inward-looking investment strategies in the first quarter of this year, spending £8.2bn ($12.46bn) on buying other British companies – only a slight decline from last year's record levels. They also spent only £1.9bn buying or merging with overseas companies, the Office for National Statistics said yesterday – below the fourth quarter figure of £2.4bn. These trends are in sharp contrast to the 1980s when UK groups turned their attention overseas.

Spending on mergers and acquisitions in the UK by companies from other countries more than halved. They spent £2.1bn in the first quarter compared with £5.2bn in the final quarter of last year. The highest proportion of UK companies' investment in other countries – about 40 per cent – was in the US. But most investment into the UK – more than a half – came from companies in the EU.

Graham Bowley, Economics Staff

هكذا من الأصل

new company

new logo

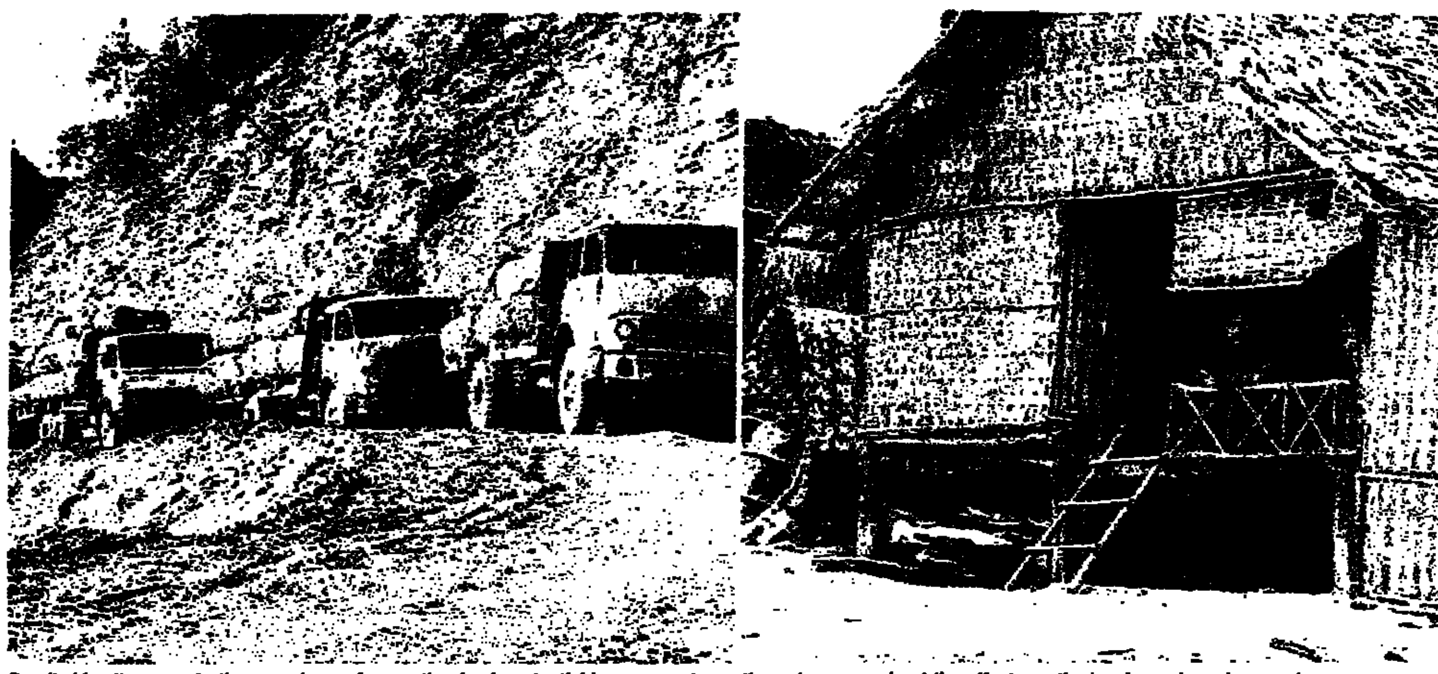
new name

new color (red)

new number

(former systems and technology businesses of AT&T, plus Bell Labs, with 125 years experience in making the things that make communications work)

BUSINESS AND THE ENVIRONMENT



On all sides there are both supporters, who eye the dam's potential income, and sceptics, who worry about the effects on the local people and ecosystem

Laos dam in a logjam

Plans for a big hydroelectric project face several hurdles, says Ted Bardacke

There is a traffic jam on the single dirt track snaking down from the Nakai Plateau in the highlands of central Laos. Heading out of the mountains are hundreds of logging trucks, laden with freshly cut pine.

An equal number of empty trucks are grinding their gears back up the hill to fetch another load of trees being cleared from a 447 sq km area slated to become a huge reservoir if the $1.2bn (£780m) Nam Thuen II hydroelectric project is built.

Lao authorities do not want to make the same mistake twice. The last time they built a big dam to supply electricity to Thailand, as would Nam Thuen II, they forgot to log the reservoir area and now must send down scuba-equipped loggers to retrieve the lucrative wood.

The logging serves another, perhaps unintentional, purpose. Nam Thuen II, like many of Laos's 23 other big dam projects which the government sees as an easy ticket out of grinding poverty, has yet to secure financing. This is partly because building the dam implies mass destruction of the forest and ousting thousands of people from the reservoir area. But as the forest on the Nakai Plateau rapidly disappears, so do environmental objections to building Nam Thuen II.

Yet despite all the logging activity, Nam Thuen II still has many hurdles to cross before the consortium of Transfield of Australia, Electricité de France, Italian-Thai and Phatra Thanakit of Thailand and the government of Laos can begin construction.

Like big dam projects all over Asia, Nam Thuen II is caught up in a whirlwind of constituencies that defy convention: dam builders who want to be "environmentally responsible" versus those with fewer scruples; environmentalists who see the project as the last hope to save areas around the dam versus those who fear Nam Thuen II will release a flood of dam construction in the Mekong River Basin; senior officials at the World Bank who want to maintain good relations with the Lao government versus staff who fear being saddled with another project guaranteed to generate bad publicity; and a government struggling with the conflict between economic reform and authoritarian political control.

For Laos, the allure of the dam is simple. Developers promise that for an investment of around $90m, much of which could be obtained at concessional rates, Laos will earn more than $1bn over a 25-year concession period, and $400m annually after that as the government takes over ownership. Projected revenue from the dam would double the country's foreign exchange earnings and increase the gross domestic product by about 20 per cent.

Some opponents of Nam Thuen II warn that these attention-grabbing numbers are too optimistic. Large dams are usually subject to cost overruns and the brown waters of the Mekong are a sign that silting problems will eventually lower electricity output, critics say. Laos's biggest dam, 10-year old Nam Ngum near the capital of Vientiane, currently operates at 61 per cent of its intended running capacity.

But these other dams benefited from government subsidies and guaranteed loans. Nam Thuen II has private investors taking on most of the risk. "Together with the French, our exposure is going to be $700m which is more than our net worth," says David Iverach, a Transfield executive based in Vientiane, who says the consortium has already spent $30m on the project.

The development consortium is having a tough time putting together a funding package for the project and has asked the World Bank to provide some risk guarantees on part of the bank debt. Several executives involved in the project say that without World Bank involvement the consortium, as presently constituted, will be unable to go ahead.

Without World Bank guarantees, financing costs will be so high and export guarantees so difficult to obtain that the project would not generate the returns the developers are seeking. Higher costs would force the Lao government to reduce its stake in the project, thus upsetting the delicate balance between public and private gain that the developers have crafted.

For some officials at the World Bank this is reason enough to support the dam. "If we don't help out, the Lao will be forced to turn to others who won't give them a very good deal, either economically or environmentally," says one senior bank official.

Developers say World Bank involvement would also give Nam Thuen II environmental and social legitimacy. "People would know that we are following international standards if we have to meet the bank's standards on things like environmental impact and relocation," says Iverach.

But to many environmentalists, the idea that World Bank involvement somehow ensures the reputation of a dam developer is ludicrous. Just across the Mekong in Thailand, the Pak Mun Dam, completed in 1994, was supposed to be a model World Bank-assisted project. But hundreds of villagers from the dam area have just spent a month camped outside Thailand's Government House, protesting that shoddy implementation of Pak Mun's environmental mitigation plans had ruined their lives.

Lao villagers, living under a government run by a military-dominated politburo, have no such recourse. But some environmentalists say they will support Nam Thuen II in any case, as long as the World Bank is involved.

"This project is a way to bring resources and management expertise into the area," says Alan Rabinowitz, Asia director of the Wildlife Conservation Society, who led a survey of the reservoir and catchment areas paid for by Nam Thuen II developers.

The survey uncovered important populations of new or recently discovered mammal species, including the giant barking deer, the yellow pig, the saola – a shaggy brown and white deer "discovered" in 1992 – and several undescribed types of small bird.

"These wildlife populations are under a lot of pressure right now – some will be extinct in the near future – and to protect them the Lao need money," he says.

Some environmentalists opposed to Nam Thuen II, including the International Rivers Network, admit that with logging continuing unabated, much of the immediate environmental battle has been lost. But they continue to fight, worried that if Nam Thuen II goes ahead so will many other dams, thus dangerously altering the ecosystem of the entire Mekong Basin. They also hope that the controversy will force Laos to consider alternatives to mass-scale hydropower.

These arguments resonate with many in the World Bank who have reservations about the project. "We need to reassure ourselves that this is the right project for Laos, that other potential alternatives have an inferior mix of economic gain and environmental cost and that implementation will take place in the right manner," says one.

At the moment, sceptics within the bank appear to have the upper hand. Late last year, after a 15-member team visited the dam site, bank staff outlined in 34 pages what would have to be done before Nam Thuen II would even be formally considered by the bank.

Among the requirements, the Laos government must undertake a study of alternatives and prioritise other electricity-generating options, which might include abandoning the hydropower dream altogether in favour of sourcing electricity from within Thailand.

So far, Lao authorities have balked at this and the other undertakings asked for. They remain fully committed to Nam Thuen II, other hydropower projects and logging, as they wait for someone finally to build the dam.

John Griffiths on two devices that may make recycling cars easier

Picking out plastics

One of the most intractable problems of scrapped car recycling – how to identify the plethora of plastic composites now used in vehicles' construction – has moved a big step closer to solution as the result of work by Ford and Southampton University.

They have jointly developed two devices, working on separate principles, which can identify more than 200 types of plastics within seconds.

In conjunction with identifying marks increasingly being introduced on different composites at the production stage, they should allow the motor industry to make significant reductions in unrecyclable automotive waste, the two parties maintain.

"Although many plastics look alike, just 1 per cent of an incompatible plastic can be enough to ruin an entire batch of recyclate," according to Walter Brandstetter, Ford of Europe's director of environment and safety.

Neither the technology nor the equipment is being kept within Ford. A contract has been given to Fluid Film Devices, a specialist engineering company based at Romsey, near Southampton, to manufacture the equipment for sale to third parties.

Agencies have already been set up in Germany, Austria, Australia and Canada and the equipment is undergoing trials in North America. Ford said it intends that each of its 18,000 dealers around the world will be equipped with the cheapest version of the equipment to help in localised recycling.

As its name implies, one identifier, the Spectrometer, analyses the spectroscopical "fingerprint" of the material being examined. It then compares this with its own integrated database of more than 200 plastic types. Should it be of a new type not on its database, the composition of the new material can be quickly added to the database.

Whereas the Spectrometer is intended for larger scale applications, the second identifier, called Tribopen, is intended for hand-held use by car dismantlers. It works on the basis of tribo-electric charges which occur when a metal or plastic surface is rubbed against the part. A wide range of different heads for the pen cover all possible plastics used in the car's construction. It is this equipment, costing around £1,000, which Ford wants to see installed at dealers. The larger-scale Spectrometer, aimed at the recycling industry itself, costs £30,000-£40,000.

The equipment is being further developed to be able to identify foam and rubber compounds. It is also being tested by police forces for use in forensic investigations.

Ford wants to see the Tribopen plastics identifier installed at dealers

PUBLIC NOTICES

NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SUBSECTION 10(7) OF THE TELECOMMUNICATIONS ACT 1984

Licences to run telecommunication systems under section 7 of the Telecommunications Act 1984 granted to COLT Telecommunications ("COLT"), SWEB Telecoms Limited ("SWEB"), National Transcommunications Limited ("NTL") and Atlantic Telecommunications Limited ("Atlantic").

1. The Secretary of State hereby gives notice as follows.
   a. that he has duly reconsidered the proposals in respect of which he published a notice on 21 April 1995 in respect of COLT, on 4 August 1995 in respect of SWEB, on 22 December 1995 in respect of NTL and on 19 May 1995 in respect of Atlantic under subsections 8(5) and 10(6) of the Telecommunications Act 1984 ("the Act") regarding his intention to grant to each of COLT, SWEB and NTL a licence to run telecommunication systems throughout the United Kingdom and to apply the telecommunications code ("the Code") contained in Schedule 2 to the Act to each of them throughout the United Kingdom and to grant to Atlantic a licence to run telecommunication systems in the Strathclyde region and to apply the Code to Atlantic there. With regard to COLT he also stated his intention to revoke the licence issued to City of London Telecommunications Limited on 21 July 1993 under the Act to run telecommunication systems in London and its vicinity:
   b. that he has granted licences to COLT, SWEB, NTL and Atlantic, being licences which include conditions such that section 8 of the Act applies to each of them, thereby making each of them eligible to have the Code applied under section 10 of the Act;
   c. that in the case of COLT, SWEB and NTL he has applied the Code to each of them subject to certain exceptions and conditions throughout the United Kingdom and that in the case of Atlantic he has applied the Code to it thoroughout the Strathclyde region. The effect of these exceptions and conditions is that COLT, SWEB, NTL and Atlantic have duties:
      i. to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or only on such above-ground apparatus as is already installed for any purpose;
      ii. to comply with conditions designed to ensure efficiency and economy on the part of each of them, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of its apparatus;
      iii. to consult certain public bodies before exercising particular powers under the Code, including the local planning and highway authorities and English Nature, Scottish Natural Heritage, the Countryside Council for Wales, the National Trust and the National Trust for Scotland, as well as relevant electricity suppliers;
      iv. to keep and make available records of the location of underground apparatus and copies of the exceptions and conditions in each licence to the powers under the Code; and
      v. to ensure that sufficient funds are available to meet certain liabilities arising from the execution of street works.
2. The Secretary of State has applied the Code to COLT, SWEB, NTL and Atlantic:
   a. because each of them will need the statutory powers in the Code to install and maintain the telecommunication systems which are to be installed and run under each licence;
   b. subject to the exceptions and conditions referred to above because they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible, and that COLT, SWEB, NTL and Atlantic can each meet (and relevant persons can enforce) liabilities arising from the execution of works.
3. The Secretary of State has granted each licence because he considers that it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services, and will maintain and promote effective competition between those engaged in the provision of telecommunication services.
4. Each Licence has been granted for a period of 25 years in the first instance and is subject to revocation by the Secretary of State on 30 days' notice in the circumstances specified in each licence.
5. Copies of each licence can be obtained from the Office of Telecommunications (Library), 50 Ludgate Hill, London EC4M 7JJ, price £12.00 each, postage and packing free.

Keith Avis

Department of Trade and Industry

15 May 1996

ARTS

Television/Christopher Dunkley

Technology is no substitute for talent

All of us at one time or another have thrown ourselves onto the old green sofa, or whatever is in front of the television, thinking "I'll just watch the news headlines", telling ourselves that keeping up with current affairs is a responsible thing to do, quite different from wasting time on a 30-year-old episode of *The Avengers* or, worse, a new episode of BBC1's old situation tragedy, *The Liver Birds*. And all of us have felt our hearts sink at the first item on the news, groaning "Oh they're not still on about that", and switched to another channel. All of us have then thought "Good grief, this is even worse" and flicked through the remaining two terrestrial channels, concluding "There's nothing on again".

Far fewer have then thought "Well I'll just check what's on the satellite" (and fewer still the cable) because only a minority of viewers have bothered to fork out for these multi-channel extras. But for those who have, the habit is to zap through all the channels in the profound belief that somebody somewhere must be showing that high quality, yet undemanding, informative, yet non-boring programme which we want, which will leave us feeling good about spending 45 minutes – well, at most an hour – in front of the box, and will send us contented to bed. We would check *Radio Times* or some other listings magazine, but we know that (taking tonight as an example) cryptic entries such as *Jeopardy, Mackenzie, Aria* and *For You*, cropped to the limit in order to make enough space to list all the channels, will leave us none the wiser.

So we work our way through the 40 or 50 extra channels, discovering what is on offer. This takes a few seconds on some networks but a minute or more on others when we have to wait for the commercials to end. Perhaps the average is 40 seconds. So it takes half an hour to work through the entire system, at which point we snarl "There's nothing on *anywhere*". However, we know that by this time a major programme junction has been passed since we began zapping, so it is time to start all over again. Hating ourselves, we hit the "Channel +" button once more.

But soft! What light through yonder wide screen breaks? It is the digital revolution and it is coming this way. Not 46 channels but – according to a mixture of promises and predictions made last week by the BBC and BSkyB – more like 460. Each. Well now, just pass that envelope and a pencil would you: if it takes half an hour to zap through 46 channels, how long is it going to take to zap through 460? About five hours . . . at the end of which, no doubt, the cry will be "There's *still* nothing on the telly!"

This, however, is the sort of technophobia up with which David Elstein, head of programming at BSkyB, will not put. Whatever Elstein is currently doing, he believes in it with greater passion than anyone around. Decades ago as a lowly employee he was a passionate trade unionist. Then a passionate fighter for Channel 4. Then, as an independent producer, a passionate proponent of indy rights. Next, as an ITV executive, the most passionate champion of ITV. Now the passion for Rupert Murdoch, BSkyB and digital doodas.

According to Elstein, "Each expansion of broadcasting has experienced the same response: initial hostility from the guardians of the status quo (who needs more?) followed by reluctant recognition that the quality of TV has improved". Really? If he had said "recognition that the quantity of TV has increased" nobody could argue. As it is, many of us recognise that, just as English theatre in the 1990s is inferior to that of the 1590s, so television today is inferior to that of the period 1965-75 when Elstein was busy with such programmes as *Panorama, This Week* and *The World At War*. Elstein added "Digital broadcasting, however delivered, will be a quantum leap forward". Maybe; we shall see. No doubt many people will be attracted by the better quality of picture and sound available, but that is not to say they will want 460 or 920 channels.

In 1982 when Channel 4 opened it became clear that a fourth network increased the difficulty of many viewers in handling programme choice by much more than 25 per cent. Ah, we shall be told, but that was just the old fogeys: look at today's 10-year-olds, surfing the Internet and zapping through as many channels as they can find. Leaving aside the suspicion that these people are not actually watching anything but are merely addicted to the stimulation of the optic nerve, the point is that 10-year-old boys are the *only* people with such enthusiasms. They may have been born in the 1960s or even the 1950s and be working in banks or polytechnics – whoops, universities – but there is something about them that will never advance beyond the age of 10.

For the rest of us the prospect of having such tidal waves of material sent into our TV sets – every aspect of every sport at the Olympics on a separate channel, every picture from every camera position at a football match, every conceivable angle on every news story – sounds more like a threat than a promise.

The worst aspect of today's newspapers is the binary fission which causes them to split every month or so, doubling the number of supplements, so that the reader has to spend as long selecting and rejecting as he used to spend reading the key elements. The art of journalism has always been in selection and editing, but modern technology seems to be destroying this and simply passing everything, unrefined, to the customer.

There have been new bits of television technology we have jumped at. We traded up to colour TV when it came, and the British proved remarkably keen on the VCR.

But, given that the majority of VCR owners still cannot programme their machines but know only how to switch on in real time, how many will ever master the art of finding the Olympic Volleyball (Women's) channel among the other 919, or even 459? Assuming each new movie really is shown on lots of different channels, starting at 10 minute intervals so you are never more than a few minutes from the next pay-per-view screening, how many will prefer finding their way through the maze to the right place for that rather than renting a video on the way home?

Technology is no substitute for talent. You can have hundreds, or thousands, or tens of thousands of channels but the sanest thing ever said about the computer age will still be true: GIGO – garbage in, garbage out. The machine will not improve the raw material.

Rosemary Martin with Alan Bates as Simon Gray's Hench, 25 years on — Alastair Muir

Concert/Stephen Pettitt

Muti's magic Bruckner

The criticisms perennially lobbed at the Vienna Philharmonic Orchestra, such as the complacent club atmosphere it exudes, its absurd refusal to admit female musicians and its reliance upon solid traditions, retain their validity. But say what you like about them, these players are still one of the finest ensembles in the world, capable of superlative music-making.

On its third and final visit of the season to the South Bank the VPO brought Riccardo Muti along as conductor for the evening at the Royal Festival Hall. Though sometimes the image he projects, and certainly the gestures he makes, suggest otherwise, Muti is far more than one of those showy conductors guaranteed to impress audiences in that superficially Italianate way. He is a thinking, intuitive conductor with stylistic insight. He proved as much in the major work of the evening, Bruckner's Seventh Symphony.

For listeners as well as orchestra this is usually a vast and exhausting work. But by the time Muti had finished with it, the previous 70 minutes seemed to have passed in a flash. Muti did not see this most satisfyingly complete and all-embracing work of Bruckner as a series of tapered blocks, as many conductors do. In his hands, the music had a cogency, a line, that helped it surge across any structural hiatuses, of which in any case there are fewer in this work than in many of his other symphonies. It was compelling stuff; frankly it put one or two of the London Symphony Orchestra's recent efforts in Bruckner, fine though they were, in the shade.

The sense of a smooth journey could not on this occasion be entirely explained by the luxuriant smoothness of the Viennese sound either. For we had to tolerate an oboe that was curiously rasping in tone – beyond what could be explained by regional differences in taste – and conspicuously imperfect in intonation. Reed problems, perhaps, but the sound stuck out like a sore thumb. On the other hand the various brass choirs – fat, German trumpets, beautifully rounded horns, sonically gargantuan Wagner tubas – asserted themselves in ways more glorious and carefully honed, matching the silken perfection of those strings. And the single clash on the cymbals in that wonderful slow movement, the moment that is supposed to signify the death of Wagner, was played by nothing more than the modestly sized pair the VPO customarily uses. A small point, perhaps, but the sound, a protracted lightning flash, was thus the climactic adornment it should be rather than a gesture that annihilates every other sound around it.

This mighty performance had been preluded by something altogether less distinguished, a reading of Mozart's Symphony No 34 in C that was perfectly neat but whose very richness and finesse proved its undoing. Mozart that is so polite and poised is not a Mozart of human dimensions, particularly in a piece so full of drama (first movement) and sharp wit (last movement). For that one needs an orchestra with more sense of adventure, one that cares not a jot about the musical equivalent of using the right knife and fork. Manners maketh man; but make Mozart they do not.

Albert Hall scoops lottery jackpot

The Royal Albert Hall is to receive £40m in lottery money – £20m from the Arts Council and £20m from the Heritage Lottery Fund. The money will be spent on a complete overhaul of stage and back stage facilities, and improvements in the seating area.

The work has already started – 1,700 refurbished seats in the balcony will be ready for the Proms in July – and will be completed by the year 2003. The Albert Hall plans to raise £18m towards the redevelopment from its own resources, from budgeted surpluses over the seven years.

Chief executive Patrick Deuchar hopes the venue will remain open during the renovation. Indeed, he expects to play host to a new client, the Royal Opera House, which must close between 1997-99 for its own massive redevelopment. Negotiations are close to completion for the Royal Opera to appear at the Albert Hall for two seasons of two to three weeks each year, with the Royal Ballet perhaps appearing for one similar season.

Deuchar is keen to present more opera and dance at the Albert Hall. The recent *La bohème*, produced by Raymond Gubbay, exceeded expectations and another popular opera is scheduled for 1997. Appearances by the Royal Opera and the Royal Ballet should stimulate enquiries from leading overseas companies.

Around £12m of the £58m development costs will go towards creating a new truck area under the south steps which will greatly facilitate the turn-round of productions. Rebuilding the south porch will cost another £7m and there will be extensive improvements to the auditorium, with new bars, restaurants and shops, and to the acoustics. The whole area around the hall will be pedestrianised.

The Albert Hall promotes itself as the "nation's village hall" and, warming to the theme, Deuchar hopes to invite village halls throughout the land to use the facilities of the hall for their arts events to celebrate the millennium. He also plans a National Orchestra Week, presenting the UK's non-London based orchestras; more youth, rock and Third world concerts; and to develop the hall's early interest in science.

Currently the Royal Albert Hall is enjoying great success. It plans 305 events this year, almost 20 above forecast, and its revenue is also ahead of estimate.

Antony Thorncroft

Theatre/Ian Shuttleworth

Bates connects in 'Simply Disconnected'

One of the most succinct lines in 20th-century drama occurs in *Under Milk Wood*, when Willy Nilly Postman (having already steamed open the villagers' mail) informs a recipient, "it's another paternity summons, Mr Waldo."

Problems of paternity on all sides bedevil Simon Hench, the protagonist of Simon Gray's *Otherwise Engaged* who returns 25 years on in a sequel which finds him no less divorced from the world, and the world no less insistent on making its presence felt. Hench's married housekeeper is carrying a baby which may be his, his married brother is under investigation for molesting one of his 13-year-old public school pupils, and he is held at gunpoint by the disturbed offspring of a casual liaison a quarter of a century earlier, when all he wants to do is spend a quiet Sunday listening to a tape of his late wife in the church choir.

In 1992, John Osborne's appalling *Déjàvu* revisited a middle-aged Jimmy Porter who was as crudely bilious as ever. *Simply Disconnected* likewise over-eggs the pudding at times, with an only sporadically and mildly amusing running gag about Hench's atrocious memory for names and a cut-off phone standing as a needlessly blatant symbol of his condition. However, Alan Bates (who created the role of Hench in *Otherwise Engaged*) gives a beautifully controlled performance. Each set of footsteps on the gravel path, each new or repeated arrival through the French windows of his Cotswold drawing room is greeted with the same air of polite, dispassionate distraction.

Only twice during the play does his voice rise above the almost monotonous calm of a man whose attention is consistently either in the distant ether or deep in himself (effectively the same thing), yet Bates – under the direction of Richard Wilson – never remotely begins to bore. Benedick Bates as the howling, stuttering, substance-abusing, revolver-waving Julian Wood is given an object lesson in "less is more" acting by his father. Only when external circumstances begin to return to an empty normality – give or take Gawn Grainger's dishevelled, drunken travel writer in one corner of the room – does the strain show on Hench.

Apart from a brief and immediately stifled howl of anguish, Alan Bates does not seem to modulate his performance at all, yet it now poignantly conveys the painful effort and loss which underlie his disconnection.

In the midst of Charles Kay's stuffed-shirt bluster as brother Stephen, John Michie's casual neanderthalism as "chauffeur" Greg and Rosemary Martin's bibulous nymphomania as Gwendoline, Bates remains as the still but now clearly suffering centre.

Simply Disconnected is not an especially distinguished play, focusing as it does on characters whose tribulations are circumscribed both socially by their age and class and dramatically by the work's nature as a sequel, but Wilson's production is brought to life by Bates' remarkable central performance.

At the Minerva Theatre, Chichester, until June 1 (01243-781312).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

JAZZ & BLUES
Bimhuis Tel: 31-20-6233373
● The Persons: alto saxophonist/clarinettist Michael Moore, guitarists Nick Kirgo, Dan Licht and Danny Petrow, cellist Ernst Reijseger and drummer Michael Vatcher perform jazz music; 9pm; May 16

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Petite Messe Solemnelle: by Rossini. Performed by the Philharmonischer Chor Berlin with conductor Uwe Gronostay. Soloists include S. Spinetti, J. Nemeth, V. Ombuena and E. Silins; 8pm; May 16
OPERA
Staatsoper unter den Linden
Tel: 49-30-2082861
● Der Ring des Nibelungen: Siegfried: by Wagner. Conducted by Daniel Barenboim and performed by the Staatsoper unter den Linden. Soloists include Siegfried Jerusalem, Graham Clark and John Tomlinson; 4pm; May 16

■ BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-2002000
● John Williams and Timothy Kain: the guitarists perform works by Houghton, Westlake, Albeniz and De Falla; 8pm; May 17

■ BRUSSELS

THEATRE
Koninklijke Vlaamse Schouwburg
Tel: 32-2-2194944
● Danton's Death: by Büchner (in Dutch). Directed by Theu Boermans and performed by De Trust and De Koninklijke Vlaamse Schouwburg. The cast includes Peter Tuinman, Jappe Claes, Bert André and Khaldoun Elmecky; 8pm; from May 18 to May 26

■ CARDIFF

CONCERT
St. Davids Hall Tel: 44-1222-878444
● Russian State Philharmonic Orchestra: with conductor Valery Poliansky and violinist Julia Krasko perform works by Rachmaninov, Prokofiev and Tchaikovsky; 7.30pm; May 17

■ COLOGNE

CONCERT
Kölner Philharmonie
Tel: 49-221-2040820
● Philharmonischer Chor-Nacht: choir works performed by the Chor des Kölner Bach-Vereins, the Johannes-Kantorei Klettenberg, the Kartäuserkantorei, the Kölner Kurrende, the Konzertchor Köln, the Mülheimer Kantorei Köln and the Oratorienchor Köln; 8pm; May 18
● Sarah Leonard and Simon Estes: performance by the soprano and bass-baritone, accompanied by pianist Pi-Hsien Chen, the Kölner Rundfunkchor and the Kölner Rundfunk-Sinfonie-Orchester with conductor Peter Hirsch. The programme includes works by R. Schumann, Zimmerman and Delz; 8pm; May 17

■ DRESDEN

OPERA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● La Bohème: by Puccini. Conducted by Klauspeter Seibel and performed by the Sächsische Staatsoper Dresden. Soloists include Birgit Fandrey, Eva Kirchner, Marco Berti and Olaf Baer; 7.30pm; May 17

■ FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Idomeneo: by Mozart. Concert performance by the MET Orchestra with conductor James Levine. Soloists include Plácido Domingo, Anne Sofie von Otter and Renée Fleming; 8pm; May 17

■ GENEVA

AUCTION
Sothebys Genève
Tel: 41-22-7328585
● Magnificent Jewellery: highlight of this sale is the largest oval "D" colour internally flawless diamond ever to be offered at auction. The diamond weighs 58.54 carats; 10.30am, 2.30pm & 8pm; May 16, 17 (11am)

■ GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tel: 44-141-3326633
● Roger Whittaker: the first British tour by Roger Whittaker in four years. He is joined by his own musicians and singers to present a show featuring songs from Broadway, Hollywood and all over the world; 7.30pm; May 16

■ LONDON

CONCERT
Royal Festival Hall
Tel: 44-171-9604242
● Krystian Zimerman: the pianist performs works by Haydn, Beethoven and Schubert; 7.30pm; May 17
St. John's, Smith Square
Tel: 44-171-2221061
● Sarah Walker and Tom Krause: accompanied by pianist Graham Johnson. The mezzo-soprano and baritone perform songs by Brahms, R. Schumann and Mahler; 1pm; May 17
EXHIBITION
Whitechapel Art Gallery
Tel: 44-171-5227888
● Renato Guttuso: exhibition devoted to the work of this Italian painter, who is best known for his narratives of Italian street life and contemporary events that he began to paint in the 1930s; from May 17 to Jul 7
THEATRE
Barbican Theatre
Tel: 44-171-6388891
● Julius Caesar: by Shakespeare. Directed by Peter Hall and performed by the Royal Shakespeare Company. The cast includes Christopher Benjamin; 7.15pm; May 16, 17, 18 (also 2pm)

■ LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art Tel: 1-213-857-6000
● Masterpieces in focus - Paintings of Zhi Garden by Zhang Hong: Revisiting a Seventeenth-Century Chinese Garden: this exhibition focuses on a set of Chinese album paintings entitled "Paintings of the Zhi Garden" by Zhang Hong; from May 16 to Jul 21

■ NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Ein Heldenleben: by R. Strauss. Performed by the Juilliard Orchestra with conductor Carl St. Clair; 8pm; May 16
Avery Fisher Hall
Tel: 1-212-875-5030
● The New York Philharmonic: with conductor André Previn perform Mozart's Divertimento, K138 and Symphony No.40; 6.45pm; May 16

■ PARIS

CONCERT
Théâtre des Champs-Elysées
Tel: 33-1 49 52 50 50
● Tokyo Symphony Orchestra: with conductor Kazuyoshi Akiyama and pianist Mariko Horie perform works by Takemitsu, Saint-Saëns and Brahms; 8.30pm; May 16
EXHIBITION
Musée National du Moyen-Age - Thermes de Cluny
Tel: 33-1 43 25 62 00
● Un Trésor Gothique: la Chasse de Nivelles: exhibition devoted to the reliquary of Saint Gertude de Nivelles, a masterpiece of Gothic goldsmith's art; to Jun 10

■ ROTTERDAM

CONCERT
De Doelen Tel: 31-10-2171700
● Rotterdams Philharmonisch Orkest: with conductor Sir Simon Rattle and mezzo-soprano Jard van Nes perform works by Gubaidulina, Mahler and Brahms; 8.15pm; May 17

■ VIENNA

EXHIBITION
Museum des 20. Jahrhunderts
Tel: 43-1-7996900
● Franz West - Proforma: this exhibition provides an overview of the oeuvre of the Viennese sculptor Franz West; to May 19

■ ZURICH

OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
● Rigoletto: by Verdi. Conducted by Oleg Caetani and performed by the Oper Zürich. Soloists include Nadine Asher, Rolf Haunstein, Cheyne Davidson and Martin Zysset; 7.30pm; May 17

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Ian Davidson

State of delusion

Despite the hopes surrounding Jacques Chirac's visit to the UK, any revival of the entente cordiale faces harsh realities

There is something touching about the hype surrounding this week's state visit to the UK by Mr Jacques Chirac, the French president. Officials on both sides have been waxing lyrical about the unprecedented warmth in the relationship between these two ancient rivals. British officials even say it will mark a new "golden age" in relations between Paris and London.

The contrast with the bruising Anglo-French confrontations of recent decades could hardly be greater. Unfortunately, this week's glad-handing does not mean anything fundamental, on either side.

Naturally, there is every reason why Franco-British relations should be excellent because the two countries have so much in common. Both are old nation-states with proud memories of their glorious histories and worldwide roles. Both are middle-sized nuclear powers, with permanent seats on the United Nations Security Council. Both are advanced industrialised countries facing difficult transitions in the world of global markets. Now their imperial rivalries have been swept away, they should have much to unite them and nothing fundamental dividing them.

These general factors of common interest have been bolstered by a recent upsurge in practical co-operation, notably in the defence field: in Bosnia, in behind-the-scenes consultations on nuclear strategy, and in Britain's lone support last year for Mr Chirac's controversial decision to resume nuclear testing. Yet it is difficult to avoid the sense that excited talk of Franco-British co-operation is based on two types of self-delusion.

The first – shared equally by Paris and London – is the hope that partnership can help restore the two countries to credibility and legitimacy as old-style national actors on the world stage.

Credibility, in the traditional vocabulary of the nation-state, means military credibility. And in the 1991 Gulf war, it was the British boast that they had deployed much the biggest (and best) army after the Americans, and four times as large as the French. So when Mr Chirac announced his defence reform plan in February, abolishing national service and creating a professional army, he paid the UK a compliment unprecedented from a Gaullist: he wanted the reconstructed French army to be as good as the British army. Rarely can any French political statement have been so widely quoted in London, and with such pleasure.

But if national machismo and militarism are to be the deep purpose of a revived *entente cordiale*, it is not so much a strategy, more a form of nostalgia. The Gulf war was a one-off: if a similar challenge arises, the western allies have so depleted their defence budgets that they could not repeat the operation. French and British forces have been valiant and professional in Bosnia, but both governments have made clear they will go no farther than peacekeeping of one kind or another.

The second delusion, much more prevalent in London than Paris, is that a new Franco-British partnership could provide a way of finessing the emergence of German dominance in Europe.

Mr Chirac flirts with the idea that stronger friendship with the UK could help restore French glory. John Major, the UK prime minister, imagines that stronger friendship with France could help him escape from his growing isolation in the European Union. Both hope their alliance could shift the balance in favour of a Europe of nation-states and against growing German demands for a federalist European Union.

The problem with such day-dreams is they have no substance. Mr Chirac's instinct may be for a more Gaullist Europe, but France is caught up in the toils of an integrated Europe. He is simply unable to resist the consequences of the long-established partnership with Germany.

The compelling influence of Helmut Kohl, the German chancellor, over French policy has been spectacularly demonstrated on two occasions in the 12 months since Mr Chirac was elected. The president came to power promising to heal the social divisions in France, with more jobs and lower taxes. That sounded as though he might be having second thoughts about economic and monetary union, and whether to stick to the budgetary austerity needed for France to join the single currency in 1999. He ruminated on these themes during his first months in office until Mr Kohl summoned him to Bonn in October.

After their meeting, the two leaders declared they were firmly agreed on the need for monetary union in Europe, in full and on time. Back in Paris next day, Mr Chirac announced that cutting budget deficits was, after all, the top priority of his presidency.

A similar drama has now been played out over French defence policy. The Germans were quite upset by Mr Chirac's defence reforms, which he announced in outline in February. They had not been informed in advance; they were disturbed by the abandonment of national service in France; they were worried that French budget cuts would disrupt Franco-German joint arms projects; and they did not like the Gaullist spin that it was primarily designed to enable France to deploy forces overseas – in other words, outside Europe.

Before the French cabinet adopted the defence reform plan on Monday, Mr Chirac was invited unexpectedly to Bonn last Friday to explain his policy. There, he assured Mr Kohl that the French reform plan was designed fully with Europe in mind; and the two leaders agreed they would continue to work towards the development of European defence co-operation in Nato. A German spokesman said they had agreed on all subjects; but just to make sure, Mr Kohl and Mr Chirac will now meet every six weeks to discuss defence issues.

Britain and France will trumpet their new-found friendship this week, making much of their mutual esteem and their glorious pasts. But the French know better than the British that their occasional ad hoc flirtations cannot turn into a serious relationship until the UK settles its position in Europe.

Military imperative: Chirac backs co-operation in defence

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Countries behind UN budget problem

From Mr George Chrysaphinis.

Sir, Edward Mortimer ("Tight hand on the purse", May 9) chooses the case of The Committee on Missing Persons of Cyprus as an example of waste of UN funds and hits the nail on the head. It is small countries with a UN vote which are responsible for the budget impasse, helped by their strong friends in the US Congress.

But think for a moment: if Cyprus really had powerful friends in Congress, would we still be looking for missing persons? Would they not have been accounted for by now? The present situation appears more like a case of throwing money at a problem which they would rather not solve, possibly an example among many. Indeed, it would be futile to talk of financial efficiency for the organisation if its missions and aims are not transparent.

However, those who would be interested in innovative solutions to the UN's budget woes should take note of the Cyprus government's long-standing offer to pay for the upkeep of an enlarged UN peacekeeping force on the island, which would replace the Turkish occupation forces and the Cyprus National Guard. The proposal went unnoticed by the cost-conscious international *community*, probably thanks to the Cyprus republic's powerful friends in Congress.

George Chrysaphinis,
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78000, Versailles, France

UK industry must prepare for Emu

From Mr Robin Geldard.

Sir, On May 10, the Bank of England launched a campaign to persuade the City to speed up preparations for a Single European Currency "City urged to prepare for Emu", May 10). But who is preparing business for the impact of a single currency?

Whether the UK is in or out, business will need to prepare itself. Pricing decisions, invoicing systems, contractual arrangements, promotional literature and many other issues will need to be considered well in advance of the introduction of the Euro. It is all the more surprising then that in recent correspondence with the British Chambers of Commerce, Malcolm Rifkind, the foreign secretary, considered it to be "premature" to establish a "commission" to consider the implications for business of a single currency.

While the politicians argue over Europe, for business it is a reality. If we are to compete effectively we must be prepared for all eventualities.

Without making any judgment as to the merits of a single currency – and regardless of whether the UK participates – the practical implications need to be assessed and clear guidance and a timetable given for the steps that business must take.

The City has the resources and expertise to work these things out, and the Bank of England will not let anything go to chance. The British Chambers of Commerce will be drawing up their own plans to provide guidance to business over the next few months. It would help if government added its resources to this effort.

Robin Geldard,
president,
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UK

New practices cure for manufacturing ills

From Mr Arthur Francis.

Sir, Martin Wolf ("The ills of manufacturing", May 14) rightly points to the creditable growth in manufacturing productivity but is too critical of output performance. Although output rose only 1.3 per cent between 1973 and 1992, this hides a process of continuous decline until the late 1970s and a dramatic improvement since the early 1980s. Martin Wolf says there is no point in bemoaning 200 years of history since it cannot be undone. But undoing our Victorian industrial legacy is exactly what managers in UK manufacturing industry have been doing in the past 15 years.

The legacy of which Prof Barry Eichengreen writes, to which one must add the legacy of outdated management practices, began to be tackled after the shock of the disastrous collapse of UK manufacturing industry between 1979 and 1981, partly by indigenous managers, but largely by foreign companies' inward investments. Not only has this dramatically increased productivity but, as the chart in Martin Wolf's article shows, manufacturing output since 1980 has increased by about 30 per cent, almost exactly in parallel with EU manufacturing output as a whole.

If there is a problem with manufacturing, it does not seem to be lack of output growth. There is little evidence of the need for the institutional interventions suggested by Michael Kitson and Jonathan Michie, and it is hard to see that the root problem is, as Martin Wolf suggests, lack of incentives. The fundamental challenge is to continue the transformation of manufacturing industry in the UK. The incentives are there. It is the job that is difficult.

Much of this transformation is taking place by deaths and births – the almost simultaneous announcements of the closure of the US-owned Cummins engine plant and the opening of the Korean Chunghwa video monitor plant in Scotland's central belt is a good illustration of this process.

But many managers are trying to revivify our existing manufacturing base by injecting new management and organisational practices. Continuing to build partnerships between companies and the educational, training, research and consulting enterprises that are supporting this are the kind of institutional activities that should be encouraged.

Arthur Francis,
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Air quality plans effective

From Mr Hubert W. Knoche.

Sir, The European Commission is not about to set "lax" limits on petrol additives (sic) as your story "Brussels to set limits for petrol additives" (May 11/12) suggests. It is about to propose a package of measures to address air quality targets which are all more severe than those in use in the US. They will be the most cost-effective combination of EU-level vehicle technology changes, fuel modifications and inspection and maintenance improvements and, hopefully, non-technical measures (such as traffic management solutions) in individual member states.

The Commission's auto-oil programme (in which both the motor vehicle manufacturing industry and the oil industry have assisted) has shown that the EU's air quality problems are not the same as in the US. For example, the Commission has found that nitrogen oxides (NOx) are the chief air quality problem in Europe, and its research has shown that reducing the aromatic content of gasoline can actually increase NOx emissions from catalyst-equipped cars. Therefore the EU is to receive especially targeted legislation rather than expensive regulations which fail to address Europe's real environmental needs.

The EU's air quality improvement measures will be substantial and cost-effective. Responsible onlookers should applaud the Commission for its approach.

Hubert W. Knoche,
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Invest in renewable energy

From Mr Peter M. Heilmann.

Sir, Your article about nuclear fusion ("Jet gets off the ground", May 8) ends with the statement that if present progress continues, it is perfectly feasible that a nuclear-fusion power station could be providing mankind with an abundant power source in the future. May I remind you that renewable energy (such as solar and wind power), not nuclear fusion, is "virtually non-polluting". If the US, Japan, Russia and the EU invest $6bn at today's prices, spread over 10 years, in researching and generating renewable energy instead of investing it in Iter (International Thermonuclear Experimental Reactor), the world will finally start receiving unlimited benefits from a source of energy that is inexhaustible.

There will always be sceptics, of course, who believe that nuclear fusion will keep radioactive pollution "to a minimum". Let's put taxpayers' money to a better, cleaner use and start investing in safer, renewable energy, which is much more environmentally-sustainable than nuclear fusion. Indeed, I agree with Mr Tom Elsworth, Jet's spokesman, when he says that, realistically, nuclear fusion is unlikely to be cheaper than current energy sources. I disagree that it will certainly be much cleaner. On the contrary, renewable energy is much cleaner, much safer and is the energy source for generations to come.

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Personal View · Jeffrey E. Garten

Time to stop trading threats

The US's hardline approach to China could have serious consequences, with no easy solutions

There is an air of Greek tragedy surrounding the problems building up between the US and China over trade, with all signs pointing to a dangerous escalation of tensions and no plausible way out.

Three issues are at play. Most immediately, Washington is poised to impose billions of dollars of tariffs on Chinese imports because of Beijing's failure to implement agreements on the protection of intellectual property rights. The Clinton administration points to China's failure to close plants that are pirating US recordings, films and other such products.

At the same time Congress is gearing up for its annual debate over the extension of normal trading privileges for China – so-called Most Favoured Nation treatment. The vote, which must take place this summer, promises to be close at best, and could well emerge with Most Favoured Nation status tied to restrictions that China would find politically onerous.

Finally, the US is taking a tough stand against China's entry into the World Trade Organisation. Washington believes Beijing has yet to open its economy far enough as well as to commit itself to the organisation's obligations. There is little or no flexibility in the American hardline position, particularly in an election year.

Having just returned from China where I had a chance to talk quietly to a variety of influential people, including some senior leaders in government, it is clear to me that Beijing's position is equally entrenched. There is a widespread feeling that China has travelled an enormous distance when it comes to the transition from a closed to a market-oriented economy. The Chinese believe that America is asking too much, too fast.

They admit they have a long way to go to open their economy further and to enforce their laws. But they deeply resent Washington's constant scolding and repeated threats of sanctions as a remedy for every problem.

The risk now is of a downward spiral in which the US makes good on its threats and China attempts to retaliate. There is simply no historical precedent for one powerful nation treating another with constant threats while still retaining a viable relationship.

> The huge risks make it imperative for both countries to strive to rise above their differences by negotiating a less confrontational relationship

The fact is China is a bigger player on the global economic stage than is generally realised. In addition to being the world's second-largest recipient of foreign direct investment, its imports and exports are each running at more than $100bn per year and rising fast. Within a decade, China will be joining the US, Japan, Germany, France and UK as one of the world's six largest traders.

Given the importance of trade relations to both sides, a rupture on these issues could lead to a deterioration in the relationship between the two countries across the board. At risk would be co-operation to contain a dangerous North Korea and any chance of collaboration on nuclear non-proliferation.

A new cold war could emerge in Asia, but this time the US would find itself without the support of Europe and Japan. Neither would wish to pursue a hardline strategy towards China and both would attempt to curry commercial advantage with China in the wake of Washington-Beijing tensions.

Other Asian nations will hedge their bets, taking sides and building up their armies, based on calculations as to which of the two they will need the most – or fear the most – in the 21st century. The political fallout over diverging approaches to China and growing anxieties in Asia would spell enormous trouble for international relations as the new millennium approaches.

Both the US and Chinese economies would suffer, but more important, the entire trading system should be at great risk. Exports are crucial to China, which relies on the US for 30 per cent of its overseas sales. Were these to be disrupted, Beijing would attempt to flood other markets with its low-cost manufactures – almost certainly creating a gigantic wave of protectionism in retaliation, particularly in Europe.

China might attempt to use the enormous leverage of its market to conclude bilateral trade deals, further weakening the prospects for a multilateral trade liberalisation based around the World Trade Organisation. Commercial greed – stretching from France to South Korea – would ensure there would be many quiet takers. And if the US were to be shut out of the world's biggest emerging market, the American public mood could turn sour on the evolving liberalisation of the global trading system.

These huge risks make it imperative for the US and China to strive to rise above their differences by negotiating a new, comprehensive and less confrontational relationship. Given the mood and political constraints, that would require a truly Herculean effort. But both sides ought to understand the alternatives: a serious trade crash or reliance on muddling through, which is the approach that got the two countries into the mess they are in today.

The author, former under-secretary of commerce in the Clinton administration, is dean of the Yale School of Management

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A flight path for Airbus

Better late than never is the immediate response to this week's decision by European ministers responsible for Airbus that the consortium should be turned into a single company. The idea has been around since the late 1980s. That it has finally won political endorsement testifies to the remorseless competitive pressures which Airbus now confronts.

Transforming the consortium from a loose collaborative venture into a proper commercial entity is a prerequisite of more effective management, greater transparency and tighter cost controls. All are indispensable if Airbus is to attract the private capital it increasingly needs to fund its development programme.

Realising these objectives, however, will pose a stiff test of political and industrial will. Airbus' ungainly structure is not a historical accident: it stems directly from the difficulty of reconciling nationalistic pride and vested producer interests with the commercial imperatives imposed by global competition. Unless these tensions are tackled, giving Airbus a new corporate form will change little.

Airbus' biggest structural flaw is the ambivalent role of its four industrial partners. As contractors, they have an in-built incentive to maximise their share of Airbus work and the profit they earn from it. That has heavily outweighed their interest, as shareholders in the consortium, in promoting efficiency by ensuring it buys from the low-cost suppliers.

Any restructuring needs to resolve these contradictions. One option would be to turn the Airbus partners into pure shareholders, which competed for contracts against all-comers. Though economically sensible, that would probably prove politically unacceptable. The alternative would be for the four partners to pool their assets under the control of a unified Airbus management. That, too, would face daunting hurdles.

The first would be to agree a valuation of the assets to be transferred. That could prove a tortuous process. Airbus would then need the freedom to cut costs radically. British Aerospace has already tackled that problem, while Germany's Dasa has recently begun to do so. But Aérospatiale of France continues to drag its feet. A more independent Airbus management would be unlikely to find it any easier to win French political acceptance for the painful surgery required.

Yet the challenges cannot be ducked. European governments can neither afford – nor are allowed by world trade rules – to continue to pick up the bill for Airbus. But private investors are unlikely to oblige while the venture remains opaque, and run largely for the benefit of its traditional shareholders. It has taken ministers almost a decade to accept the need for reform. They do not have as long again to turn that decision into action.

False move in SA

Mr F.W. de Klerk's decision to pull out of South Africa's government of national unity may have been done with the best of intentions. Yet far from helping to ensure a healthy and stable multi-party democracy, it could set back South Africa's efforts to free itself from the racial politics of the past.

It has been clear for some time that Mr de Klerk has been frustrated by his role as a deputy president. He has felt unable to speak his mind on vital issues. He believes the government's economic policy is sound in principle, but implementation has been weak, including the slow pace of privatisation. He can now attack the influence on government of the Congress of South African Trade Unions (Cosatu) and the Communist Party.

His concerns are shared by many in the business community. They were dismayed by President Mandela's equivocal response to the one-day stoppage called by Cosatu earlier this month to mark its opposition to legislation that will give employers the right to lock out striking workers.

But Mr de Klerk should have put his own house in order first. Many of the National Party's old guard are still in place. It has failed to attract new blood, and above all it has failed to win significant black support and establish a non-racial identity which transcends its history.

However hard Mr de Klerk may try to prevent it, there is a risk that NP criticism of the ANC government will be rooted in the past, and motivated by narrow white concerns. He is right to warn of the dangers posed by an all-powerful ANC. But the government needs a real opposition, and it is unlikely to be provided by the NP in its present form, or under its present leadership.

On the contrary, an opposition led by the NP is more likely to divert attention from the real questions at the heart of South Africa's long-term political future: when and how to unbundle the ANC-led coalition that really runs the country.

The failure to provide decisive economic leadership has its origin in the strained relationship within that coalition, between what may be loosely termed the left and the right. Neither Cosatu nor the Communist Party on the left see eye to eye with the economic pragmatists in the ANC. The sooner this tension is resolved the better.

Mr de Klerk's decision may delay that development. The instinctive response from the ANC-Cosatu-CP coalition when it comes under attack from a party that is white-led, and predominately white-supported, will be to close ranks. Ironically, Mr de Klerk risks entrenching race in South African politics at the expense of what he himself seeks to achieve: a multi-party system, in which allegiances are determined by policies, not colour.

Bank's warning

Perusal of the Bank of England's latest inflation report is unlikely to make the UK chancellor of the exchequer very happy. He seems to have no room to lower short-term rates of interest; the Treasury's output forecasts for this year look too optimistic; and the public finances are in a hole. The right choice is for him to soldier on responsibly. It might be the politically astute choice. To his credit, it is the one Mr Kenneth Clarke is most likely to take.

The Bank's latest projection for inflation is that it will rise to about 2½ per cent two years hence, in line with the government's target. The danger, it believes, is that "apparent short-term weakness in some sectors" will lead to a repeat of past policy mistakes – undue pessimism about demand matched by undue optimism about the economy's ability to respond. Policy-makers are walking along a tightrope. Even a small error could shift inflation well above target.

How likely is this to happen? There is, at the least, little immediate likelihood of a rise in cost inflation. As the report notes, "the sharp rises in import and input prices a year ago... appear neither to have led to expectations of higher future inflation, nor to have become embedded in wage and price setting". There is also no sign of tightening in the labour market. This fact is consistent with the Bank's view that the "natural" rate of unemployment is below the present rate. Since labour demand, measured by total hours worked, has hardly changed, this is not surprising.

At the same time, the pick-up in demand might be strong, driven by a recovery in continental Europe, combined with faster growth of private investment and consumption in the UK. Behind such buoyant domestic demand could be the rapid growth of broad money, which has been running at about 10 per cent a year. Yet this should not be too great an immediate danger, provided the growth were not too fast. If there is slack in the economy, faster growth than the half a per cent a quarter of 1995 should be feasible. It must be desirable. The only concern should be with how much faster demand grows. Three per cent a year should surely be welcomed.

For the moment, neither the possibility of faster growth in demand nor monetary policy, more broadly, is worrying. Fiscal policy is the big concern. According to the definitions in the Maastricht treaty, the fiscal deficit in 1995 was 6 per cent of gross domestic product. It shows no strong tendency to decline, partly because of slower-than-expected growth, but also because of lower-than-expected fiscal revenue.

Given the uncertainty about how fast the economy can grow, the UK could well have an unsustainable structural fiscal deficit. Mr Clarke is now locked in on both monetary and fiscal policy and is reduced to praying for a strong non-inflationary pick-up in the economy. Yet if it does come, it is now likely to be too late.

Exotic but not for faint hearts

Dealing in the currencies of emerging markets has seen rapid growth as banks look for new opportunities in foreign exchange, says **Philip Gawith**

Until recently, only a few leading banks – including Citibank, HSBC Midland and Standard Chartered – could claim to have an established presence in the trading of emerging market currencies. Now, barely a month passes without another bank announcing that it is increasing its trading or research capability in these so-called "exotics".

With mature currencies less volatile than in the past, banks are looking for new opportunities in foreign exchange. And rising trade and investment flows to developing countries have boosted demand for hitherto obscure currencies.

"Exotics used to be seen as a Mickey Mouse business, with no liquidity and few customer inquiries," says Mr John Wareham, global head of foreign exchange marketing at Merrill Lynch in London. "Now it is essential to have them as part of a full service foreign exchange business. Things have matured very quickly in the last four to five years."

Asia and Latin America have long been the emerging markets most active for currency trading, but the big growth recently has come in east European currencies, such as the Polish zloty and the Czech koruna, as well as the South African rand.

"Eastern Europe is, without doubt, more prominent in discussions with our customers in Europe," says Mr David Simmonds, economist at Citibank in London. "But Asia still constitutes the largest sphere of attention for us on the trading side."

Mr Eddie Tan, country treasurer at Citibank in Singapore, says: "The growth of regional currencies has been phenomenal – in the last two years, trading volumes have risen by about 40 to 50 per cent a year."

The latest indication of growing interest is the announcement by Reuters, the news and financial information group, that both the rand and Malaysian dollar will soon be tradeable on Reuters Dealing 2000-2, an electronic foreign exchange system that matches buyers and sellers.

Underlying the increased trade in exotic currencies is the rapid growth of many developing economies. Whether they want to buy a factory or invest in shares, investors in an emerging market usually need to buy that country's currency first.

Although customer demand is driving the expansion of trading in exotic currencies, banks are also aware that the plan for a single European currency is threatening an important part of their business – intra-Europe currency trading – and that they need to look elsewhere for growth. "I regularly receive CVs from European currency traders who feel the future of foreign exchange trading lies in Asia," says one chief trader in Singapore.

Very thin margins on mature currencies provide another incentive for trading exotics. In spot transactions, bid-offer spreads on less liquid Asian currencies can be as high as 50 "pips" (a pip is the minimum price change used by dealers in quoting the rate of a given floating currency) compared with three to five pips in the leading currencies.

Spreads on exotic currencies tend to widen much more quickly than mature currencies when markets are nervous. The rand, for example, was being quoted yesterday at R4.3525/3625 – a spread of 100 pips. In January, the typical spread was about 50 pips.

Mr Rob Loewy, head of foreign exchange at HSBC Markets in London, says that about 10 per cent of his London dealing room staff is committed to exotic currencies, up from only 1 per cent two years ago. He says this figure could rise to 30 per cent within three years. Similar stories are told at other large foreign exchange banks.

Although trading volumes are rising, the increases are from a low base. Volume figures for emerging market currencies are notoriously sketchy, but market estimates indicate that total daily turnover in the leading 20 exotic currencies is probably about $40bn (£27bn). This is about 3 per cent of the daily turnover of $1,230bn in the 26 leading markets surveyed by the Bank for International Settlements (BIS).

The figure is low for a number of reasons. Most obviously, the economies are smaller. Second, unsophisticated capital markets in many countries offer only limited investment opportunities to foreign investors, so demand for the currencies is limited.

Third, emerging currencies are traded in relatively small volumes because they lack the "multiplier effect" associated with established currencies: in mature markets, interbank traders lay off among themselves the large positions they inherit from customers to reduce the risk of holding too much of one currency, creating volume in the process. Whereas most trading volume in emerging markets reflects actual customer business in the form of trade or investment flows, BIS figures show that nearly 80 per cent of turnover in mature currencies is between banks.

Another factor that has dampened trade in exotic currencies is the attitude of central banks. Many developing countries do not aspire to full currency convertibility and do not allow free trade in their currencies. In Asia, central banks often want to prevent their currencies rising so fast that exports become uncompetitive.

Exotic currency trading may be profitable, but it is not for the faint-hearted. Traders can suffer heavy losses from sharp movements, and portfolio investors with exposure to the currency can quickly lose faith in the country when the currency starts spiralling downward.

Chastened investors in the South African rand are the latest to learn the lesson: political and economic uncertainties have caused the currency to fall from R3.65 against the dollar to about R4.37 since February.

"It's not just a never-ending stream of opportunity. It's a never-ending stream of risk too," says Ms Birgitte Jespersen, head of the emerging markets currency group at HSBC Midland.

Mature currencies react to policy decisions in other countries – a shift in German interest rates, for example, will affect the value of the dollar and most European currencies too. The value of exotic currencies tends to be driven more by local events. This places a premium on having a presence on the ground in these markets, and a good research capability in the main currency trading centres. This is why banks such as HSBC and Citibank, which have extensive branch networks, are prominent in the area.

"Researching an emerging market currency is substantially more pivotal to trading them than it is to the dollar/D-Mark where depth of economic research doesn't necessarily inform trading on a day-to-day basis," says Mr Wareham of Merrill Lynch.

Emerging markets can present many inhibitions to trading which do not exist in more mature economies. These can include the inability to trade the local currency offshore, transactions having to be routed through a local bank, and limitations on the size and duration of transactions that can be done in the forward market.

Ms Jespersen of HSBC Midland says: "In a mature currency, the customer comes to us for execution. But when he goes to an emerging market, it is very common for us to look at all eventualities. Execution of foreign exchange may only be 10 per cent of the deal. The rest may involve regulatory, legal and tax issues."

Emerging market currency trades can thus take on the character of structured trades, with traders taking up to a week to come up with a price, compared to trades in the "majors" where getting very large deals done quickly is taken for granted.

Many governments in developing countries still wish to control the value of their currency. But the desire for foreign capital obliges them to accept a degree of currency convertibility. As emerging economies grow, fuelling cross-border trade and investment flows, so their currencies will be traded more.

While the rouble and the Indian rupee may still be minnows in the global currency markets, it is likely they will feature far more prominently in the lives of future generations of foreign exchange traders.

Additional reporting by Conner Middelmann

Exotic currencies

Domestic currency	Daily foreign exchange turnover* ($US bn)	Gross national product** ($US bn)	Market capitalisation† ($US bn)
South Africa	6.0	125.2	306.0
Singapore	5.5	65.8	195.0
Malaysia	5.0	68.7	246.0
Thailand	5.0	129.9	149.3
Indonesia	3.5	167.6	77.1
Hong Kong	2.5	126.3	355.0
Turkey	1.1	149.0	27.1
Czech Republic	0.5	33.1	19.2
Saudi Arabia	0.25	126.6	
Brazil	4.5	536.3	166.5
South Korea	1.75	366.5	179.3
India	1.00	278.7	124.9
Mexico	1.20	368.7	96.1
Colombia	0.1	58.9	7.7
Russia	0.5	392.5	12.8
Poland	0.3	94.6	6.5
Hungary	0.25	39.0	10.1
Romania	0.045	27.9	-
Ukraine	0.02	80.9	

* FT estimates, spot and forward, onshore and offshore. ** World Bank, end 1994
† Global Emerging Markets Equities Review 29/2/96 (Except Singapore, Hong Kong, Malaysia which are sourced from Asia Week. Source: Citibank

· OBSERVER ·

Sunshine and barbecues

■ The clock ticks remorselessly on – Britain's next general election *feels* imminent, even if it isn't. Those close to the nexus of power are beginning to ponder what fate has in store for them.

One such is Alex Allan, the 45-year-old principal private secretary to prime minister John Major in the Cabinet Office. Allan has decided he wants to be the next British high commissioner in Australia.

Major and Allan have a very good working relationship. To Major's considerable relief, Allan will certainly stick out his current job until the election. Says Downing Street: "He is certainly intending and expecting to be here until the election."

Ah, but after the vote? The word is that Major has given Allan to understand that his heart's desire – a sunny clime and plenty of giant prawn barbecues – will be his. The only blot on the horizon is that the Canberra job may not be in the gift of Major after the election. Tony Blair, who has recently taken a keen personal interest in Australian politics, may well have other ideas. Certainly Blair has not sanctioned Allan's transfer, and is unlikely to do so before the election. Of course, if Blair romps home, he may well be in a generous mood.

Meanwhile, Roger Carrick, our current man in the Aussie High Commission, may not be too interested in returning to long summer evenings with little to do – one of *his* personal interests is "avoiding gardening."

Wim's whim

■ So Wim Duisenberg seems to have decided that the presidency of the European Monetary Institute is big enough for him after all. When the EMI was established, the Dutch central bank boss sniffily turned the post down – despite having the support of both the French and the Germans, because he appeared to think he could be more influential at home. He is now likely to take over from Alexandre Lamfalussy, 67, at the prototype European central bank next summer.

It would certainly represent a welcome change of fortunes for the Dutch, who have had quite a knack of missing out on the really big international jobs in recent years. Ruud Lubbers, former prime minister of the Netherlands, both failed to secure the presidency of the European Commission to follow Jacques Delors, and was vetoed by the Americans for the secretary-generalship of Nato last time round. Onno Ruding, the former Dutch finance minister, watched the IMF (in 1986) and then the EBRD (twice, in 1991 and 1993) elude his grasp.

Duisenberg has perhaps decided that the power of the national central banks has already waned sufficiently – as monetary union approaches – to accommodate his move. More likely, he has his eye on January 1 1999, when he will be 64, and neatly positioned for an indisputably powerful role as the first president of the European Central Bank (assuming, that is, the Emu timetable is met). There is no disputing his country's Euro-credentials, and he himself is reckoned to be sound, monetary-policy-wise. Jean-Claude Trichet, governor of the Bank of France, the other front runner, will be redoubling his efforts to trot out Germanic buzzwords like stability at every possible occasion.

Just visiting

■ Don't waste your time at school if you want to become a professor – just get yourself elected prime minister first.

That's what Paul Keating, erstwhile premier of Australia, has done. Keating left school at the age of 15 and presumably has few letters after his name, but never mind, the University of New South Wales has wiped down a desk and bashed out a tin-plate office nameplate for him: visiting professor of Asian business.

According to the university Keating will be involved in teaching and "mentoring". One of his first duties will be to deliver a lecture on June 12 on Australia's involvement with Asia. That sounds like a doctoral thesis rather than a one-off lecture – but maybe he got top marks for précis.

Finally departed

■ Among the many distinctions of the late Nnamdi Azikiwe, or 'Zik', as Nigeria's first president was fondly known, was being able to read his own obituary six years before he died. In November 1989 Nigeria's state television carried a false report of his death, plunging the nation into mourning. While many fell for the hoax, Zik – a former journalist – took a sanguine view. "I am not in a hurry to leave this world because it is the only planet I know." Now he's finally gone.

Valiantly does it

■ Emboldened by the South African rand's rally off recent lows, Trevor Manuel, the newish finance minister, boasted yesterday to parliament that "this deemed crisis I assure you will soon pass". Foreign investors will no doubt be encouraged to hear that Manuel believes their losses (20 per cent in three months) are a figment of the imagination. This isn't the first gauntlet Manuel has thrown down. Soon after his appointment, he scoffed that speculators would "lose their shirts". Nice to see a brave man in charge.

The Financial Times

100 years ago

The Rhodesia Rising

Bulawayo, 12th May:- A strong column left yesterday for the Shanghai in order to meet Mr. Cecil Rhodes, who should arrive here in about ten days' time. His presence is greatly needed. The petition to the London Board of directors of the Chartered Company with reference to the reported resignation of quantity of supplies has arrived. The Salisbury column has had a brush with the natives at Mavin. The enemy was driven back without any casualties on our side. – Dalziel.

50 years ago

Motor Shares Firm Again

Motor shares were again firm yesterday on the expectation of increases in the prices of popular makes of cars following the increase announced by the Austin company. It is not yet known which companies will raise their prices, but the Motor Agents' Association yesterday held a long meeting to discuss the subject. Several have intimated their desire to maintain existing levels as long as possible, but it is realised that the increased wages and high cost of materials may force a widespread rise in the neighbourhood of 6½ per cent.

FINANCIAL TIMES
Wednesday May 15 1996

Congress edges closer to Internet copyright deal

By Patti Waldmeir in Washington

The US House of Representatives was yesterday close to a compromise on policing the Internet for copyright violations, shifting much of the burden to copyright owners and away from telecoms companies and service providers.

The struggle over updating copyright law for the digital information age pits the large telephone companies and Internet service providers against copyright owners – producers of software, literature, films and music – who say their works are being stolen over the system.

Both sides agree that the problem is huge. Every day, more than 500m messages are transmitted on the US portion of the *Internet alone. Internet subscribers*, using scanning and copying equipment, are able to put whole books or films on to the Internet, making these works available to about 60m computer users around the world.

A House subcommittee will today discuss a bill which is expected to increase protection offered to copyright owners, without imposing a heavy policing burden on service providers. The eventual legislation is likely to be an international model for content protection.

Negotiations were continuing yesterday to finalise the draft bill, which will go before the House judiciary subcommittee on intellectual property before proceeding to the full judiciary committee and on to the floor of the House for a vote.

The copyright issue is part of a larger debate on policing the Internet. Governments are debating the control of a huge flow of information, including pornography, which appears on the vast and largely anarchic system.

Representatives of the tele*phone companies and online* service providers – the so-called Ad Hoc Copyright Working Coalition – complain that they cannot be held responsible for patrolling the entire glut of information which they help to transmit.

They say early drafts of the bill would have made them liable for all copyright infringement on their networks, even when they only acted as a conduit to such information.

Negotiators were moving yesterday toward a compromise which would make telephone and Internet service companies liable only when they directly infringed copyright themselves, relieving them of liability for infringements by subscribers.

They would be required to remove or block access to copyrighted information on the Internet only if copyright owners asked them to do so. If they failed to act, they could then be liable for "contributory or vicarious" violation.

Members of the Ad Hoc Coalition – which includes MCI, AT&T, Sprint, America Online, *CompuServe, Prodigy Services* and the regional Baby Bell companies – were optimistic a deal could be struck on compromise legislation. But they were unwilling to comment in detail until the final wording of the draft bill had been agreed.

Programme for Africa, Page 4

Russian voters tune in to political aerobics

By John Thornhill in Moscow

Startled Russian voters woke from their slumber yesterday to the resonant growls of Mr Alexander Lebed, the populist former military commander, as presidential candidates took to the airwaves to broadcast their many and varied views.

Mr Lebed, whose deep voice is renowned for making soldiers tremble and women's knees wobble, was the first of the 11 candidates to take advantage of the *free 10-minute broadcasting slots* that state television and radio has made available before the elections on June 16.

"For five years we have been running on the spot. It is time to take the first steps forward. Give me the strength of your support," he said, perhaps inadvertently echoing the themes of the early morning aerobics shows popular on Russian television.

The early-rising former general, a law-and-order candidate who won his stripes by suppressing a regional conflict, began his radio address promptly at 7am. He promised to crack down on corruption, promote social justice and get the economy moving again.

An hour later, as many voters started tucking into their *kasha* (porridge), Mr Gennady Zyuganov, the Communist party leader, made his first radio *appearance and attempted to* allay voters' fears about his party's murderous past.

"There should be no fears of prisons or gulags or other illegalities re-emerging," he said.

Appearances were also made by Mr Yury Vlasov, a nationalist and former weightlifting champion, and the more ominous Mr Vladimir Zhirinovsky, the inflammatory ultra-nationalist, who drew lots for their place on the dial. President Boris Yeltsin, fighting fiercely for re-election, is due to make his first radio broadcast on Friday.

*In general, political advertis*ing remains crude in Russia, with many voters expressing incomprehension at the often bizarre campaign presentations which preceded parliamentary elections in December.

The Communist party has used television clips of rippling wheat fields and space rocket launches with much success. But Russia's economic reformers have performed less well with their fare of hectoring lectures filmed in dimly lit studies.

Many of Russia's media have expressed open sympathy with *Mr Yeltsin's campaign and the* president dominates most TV news broadcasts, making a formal advertising campaign seem somewhat superfluous.

Even NTV, the previously forthright independent TV channel, has noticeably softened its criticism since its head joined Mr Yeltsin's campaign team.

Euro chief

Continued from Page 1

Wellink, executive director in charge of its monetary department, was nominated as Mr Duisenberg's successor.

If all goes without hitch, Mr Duisenberg will take over the EMI when its recommendations on which countries should join Emu will have a huge political resonance. *A respected figure, he* has a track record to equip him for this challenge.

After working at the International Monetary Fund in Washington in the late 1960s, he was an adviser to the Dutch central bank and a professor of economics before becoming finance minister in a Social Democratic government between 1973 and 1977.

After three years as a member and vice-chairman of the executive board of Rabobank, the Dutch commercial bank, he joined the central bank as an executive director in 1981. As *president, he has fought infla*tion and has made the Dutch guilder one of the EU's strongest currencies by keeping it tightly in line with the D-Mark.

Portugal

Continued from Page 1

place share orders in advance through a pre-registry system that offers participants stronger assurances of receiving all the shares they order.

Brokers are hoping the price will be fixed at a discount of 5-7 per cent to the current market price to attract investors to a company that analysts consider to have strong profit potential.

PT's consolidated net profit climbed 44 per cent in 1995 to Es36.2bn. Some analysts forecast an increase to Es53bn this year.

US targets Chinese goods worth $3bn as trade war looms

By Nancy Dunne in Washington and Tony Walker in Beijing

The US today will release a list of $3bn worth of Chinese goods which are potential targets for import sanctions, moving closer to a trade war over alleged abuses of intellectual property rights in China.

The White House and the Chinese foreign ministry yesterday both said little progress was made in last-minute Sino-US talks aimed at averting a conflict.

The US sanctions are expected to strike hardest at China's state-run companies which produce textiles and at companies in *southern China allegedly produc*ing pirated versions of computer software and compact discs.

The list, also to include electronics and, probably, toys, will be pared down to about $2bn worth of products after consultations with US companies over essential imports for US industry.

Products on the list would be subjected to high tariffs or reduced quotas which would take effect in 30 days following comments from US companies on the proposed action.

The Chinese government has touted its raids on companies *producing pirated goods* as demonstrating its determination to protect US copyrights, trademarks and patents. Beijing has announced large seizures of pirated goods including 20m CDs, 800,000 videotapes, 40,000 sets of software and 480,000 books.

However, US companies maintain that more pirated goods are being exported than ever. Administration officials have consis*tently said they will accept no* more promises of action, as they did in a last-minute agreement last year. They are demanding that China close the factories concerned and expand market access for US videos, compact and laser discs and softwear.

China has warned of counter-retaliation and "tremendous" consequences for US business. Retaliatory measures could hit US car companies, which have planned joint ventures in China, and Boeing, which has already lost aircraft sales to Chinese customers to European competitors *during this year's mounting* trade dispute.

Mr Mike McCurry, White House spokesman, yesterday acknowledged the possibility of a trade war. "If we have to move towards enforcing our law, which we would prefer not to do because we would prefer to resolve these issues, there is a prospect of retaliation," he said. "We're aware of that, but we have to protect our interests."

The sanctions targets will please American textile and clothing companies which have been hurt by cheap imported Chi*nese goods. The tough stance* against China could also boost the popularity of President Bill Clinton, running for re-election later this year, in the textile-rich southern states. According to recent polls, he is trailing the Republicans in these states.

Stop trading threats, Page 12

THE LEX COLUMN

Chinese whispers

The recent recovery in Hongkong Telecom's share price has been driven by expectations that Cable and Wireless, its majority shareholder, will cut its stake. The failure of C&W's merger talks with British Telecom has paradoxically stoked the speculation. Maybe C&W will do a "Cathay Pacific" and sell a stake to mainland Chinese interests to protect it against unfavourable treatment once Beijing takes over next year. Or perhaps a consortium combining Chinese, Hong Kong and western companies will bid for the whole group.

Well, maybe. Certainly, yesterday's comments by Mr Brian Smith, C&W's chairman, that he has no "immediate" plans to sell the stake suggests he might consider a sufficiently attractive offer. Sadly, it is hard to see anybody offering more than the current HK$170bn ($22bn) market capitalisation – which works out at a punchy six times sales.

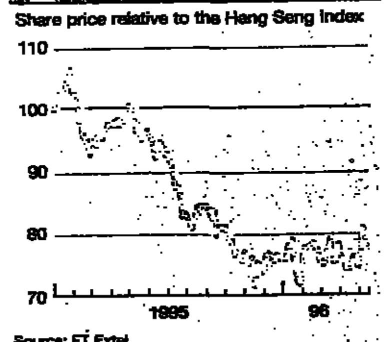
Hongkong Telecom may be phenomenally profitable, but this flows entirely from its monopoly on international calls. Despite the party line that the franchise is secure until 2006, it could go before then; only this week the length of Singapore Telecom's monopoly was cut by seven years. Quite apart from any formal change, the monopoly will be challenged by technologies like the Internet.

Although Hongkong Telecom is trying to build up alternative revenue sources, these will not be remotely as profitable as international services. In the circumstances, those banking on a high-priced bid are probably deluding themselves. Indeed, given Beijing's ability to influence the company's fate, it is more likely to buy at a discount – if at all.

FT-SE Eurotrack 200: 1725.9 (+11.1)

Hongkong Telecom

Share price relative to the Hang Seng Index



Source: FT Extel

European privatisation

Is it time for another rush of European privatisations? New governments in Spain and Italy want to accelerate privatisation programmes, and the French administration is also keen to push ahead. The timing should be ideal: European markets have performed well this year, and US investors, sensing their own market may be peaking, are shifting funds overseas. Furthermore, there is a backlog of deals which are more or less ready to come to market, such as Italy's Eni.

But there are some brakes on activity. The market is still holding its breath for the German government's $10bn Deutsche Telekom offering, now *not expected until early November.* Ahead of that, there are only two fairly short windows of opportunity, immediately before and after the traditional lull in July and August. Furthermore, some candidates, like France Telecom and Italy's Enel, need more work: setting up regulatory frameworks and getting efficiency improvements under way are pre-conditions for successful offerings.

Governments know that investors can afford to be choosy. France's decision to sell only a small portion of Renault is *clearly influenced by* depressed sentiment on European car stocks. Furthermore, investors favour markets where past privatisations have performed reasonably well, such as Spain. French insurance company AGF, on the other hand, is under the shadow of UAP's dire performance.

So despite strong markets, a boom in activity may not come until next year. The snag is that by then market conditions may be less favourable.

Allied Domecq

There is a sense of urgency emanating from Allied Domecq's executive *management, and with good reason.* Under the five-year tenure of Mr Tony Hales, chief executive, the company has failed to take the hard line in restructuring its core spirits business that market conditions demanded. Over that period, its shares have underperformed the market by 40 per cent, earnings have gone sideways and Allied has developed an uncanny knack for nasty surprises. But with the arrival of Sir Christopher Hogg, the new chairman, the management is faced with a choice of do or die.

There are areas of Allied's business which need little done to them. Pub retailing is performing at least as well *as the competition, after stripping out* the rising beer prices it has to pay to the group's half-owned brewer Carlsberg-Tetley. And if regulatory hurdles can be overcome, the brewery should soon be sold. The spirits division is the greatest problem, but at least the management is finally admitting this. Allied underspent on marketing in the US to prop up profits, and is now *feeling the pain. Too much* money has been wasted supporting weaker brands, which should be sold. And the group has been left with a brand portfolio with few market leaders, leaving it at the whim of competitors' pricing policies.

Allied's premium price-earnings rating against its peers might seem to conflict with its position as the weakling of the world's big four spirits group. But this is justified by the greater scope for cost-cutting. If the existing management does not deliver this, it is only a matter of time before someone else does.

Radio tails

The idea of using fixed radio links to bypass the local bottlenecks run by the world's telecoms monopolies is more than half a decade old. But it has taken until now for Ionica, the UK company which has pioneered the technology, to launch a service. By *delaying so long, the market opportu*nity – at least in Britain – is not as attractive as it once looked.

The theoretical economics of "radio tails" still look appealing. To hook up its customers, Ionica does not need to dig up roads and lay cables; all it has to do is put up base stations at strategic locations and fix aerials to customers' roofs. The upfront investment is less than laying cables; it is also lower than cellular communications, which requires more sophisticated electronics to track people on the move. As a result, Ionica calculates the pay-back period from signing up a customer to recovering its investment will be three *years – much less than for most* telecoms projects.

That said, Ionica's technology risks falling between two stools. Not only is it unable to support mobility; its radio tails are not yet fat enough to carry entertainment or fast Internet services. While that may not have mattered a few years ago, the inability to offer customers a full range of services is likely to be a handicap in an age when multimedia is all the rage. Ionica may still carve out a niche in the UK; and a cheap and cheerful technology could take off in developing countries. But this version of radio tails, at least, does not seem a *big threat to the mainstream telecoms groups of the* developed world.

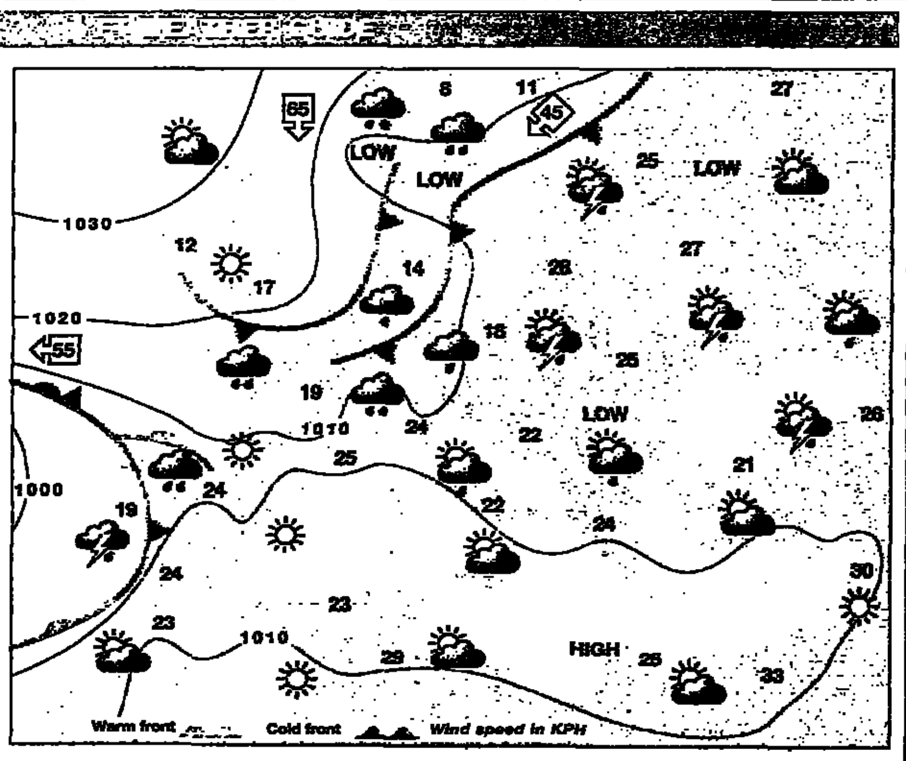
Lex comment on UK utilities, Page 20

Europe today

The British Isles will be sunny with occasional cloud. The Baltic region will be cloudy with rain. *Brighter skies will spread from the north-west* into the Benelux. A broad zone of cloud and drizzle will linger over western Germany, Belgium and northern France. Southern France and eastern Spain will be sunny. Portugal and western Spain will have cloud and rain. Italy will be sunny, but the central and north-eastern sections may have showers. Eastern and south-eastern Europe will be warm.

Five-day forecast

The British Isles will gradually become cooler with rain arriving from the south. Rain will move south from Scandinavia to the Baltic Sea area becoming heavier during the weekend. Western Europe will have rainy periods while the Iberian peninsula will remain unsettled with numerous thunder showers. Eastern Europe will stay warm with occasional thunder showers.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

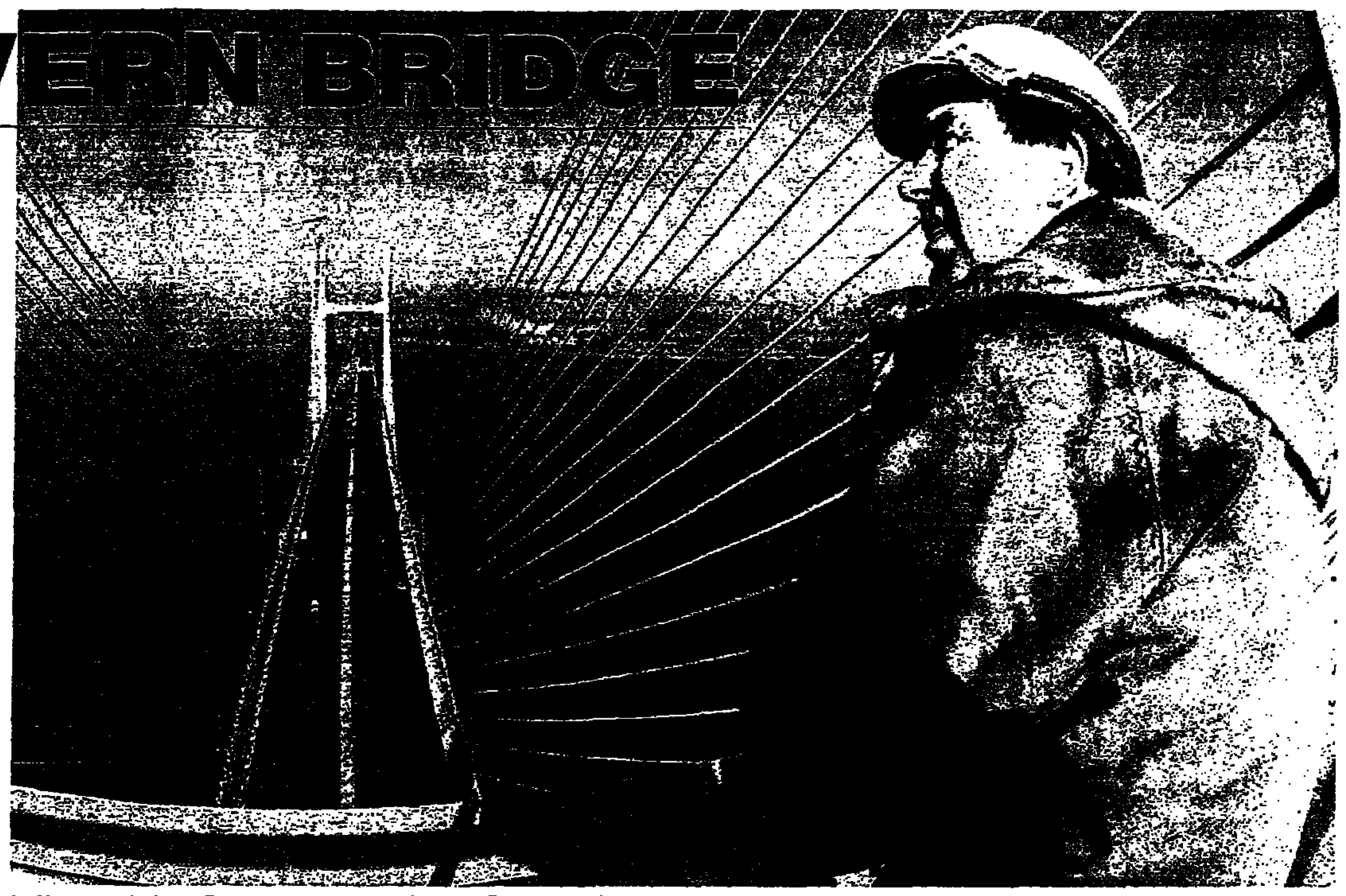
TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	37
Accra	fair	31
Algiers	fair	23
Amsterdam	fair	12
Athens	sun	24
Atlanta	fair	31
B. Aires	cloudy	18
B.ham	fair	16
Bangkok	shower	37
Barcelona	sun	25
Beijing	sun	28
Belfast	sun	12
Belgrade	shower	22
Berlin	fair	19
Bermuda	shower	22
Bogota	fair	19
Bombay	fair	33
Brussels	fair	13
Budapest	shower	25
C.hagen	fair	16
Cairo	sun	33
Cape Town	fair	21
Caracas	fair	30
Cardiff	sun	18
Casablanca	cloudy	22
Chicago	fair	22
Cologne	drzzl	12
Dakar	fair	26
Dallas	windy	33
Delhi	sun	39
Dubai	sun	38
Dublin	fair	12
Dubrovnik	shower	20
Edinburgh	fair	11
Faro	shower	19
Frankfurt	drzzl	16
Geneva	fair	22
Gibraltar	sun	19
Glasgow	fair	12
Hamburg	fair	14
Helsinki	rain	11
Hong Kong	fair	27
Honolulu	sun	31
Istanbul	fair	23
Jakarta	fair	32
Jersey	sun	13
Karachi	sun	34
Kuwait	sun	37
L. Angeles	fair	21
Las Palmas	fair	21
Lima	fair	25
Lisbon	rain	19
London	sun	17
Lux.bourg	drzzl	12
Lyon	fair	21
Madeira	fair	19
Madrid	fair	24
Majorca	sun	24
Malta	sun	22
Manchester	fair	15
Manila	rain	30
Melbourne	fair	16
Mexico City	sun	22
Miami	sun	32
Milan	fair	24
Montreal	fair	11
Moscow	shower	25
Munich	shower	16
Nairobi	fair	27
Naples	fair	22
Nassau	fair	29
New York	shower	15
Nice	fair	23
Nicosia	fair	25
Oslo	rain	11
Paris	drzzl	14
Perth	sun	23
Prague	cloudy	18
Rangoon	fair	34
Reykjavik	fair	15
Rio	cloudy	27
Rome	fair	22
S. Frsco	fair	21
Seoul	sun	25
Singapore	fair	32
Stockholm	rain	10
Strasbourg	cloudy	16
Sydney	shower	18
Tangier	cloudy	23
Tel Aviv	sun	30
Tokyo	cloudy	20
Toronto	shower	12
Vancouver	rain	16
Venice	fair	22
Vienna	shower	21
Warsaw	shower	28
Washington	shower	20
Wellington	fair	14
Winnipeg	cloudy	15
Zurich	rain	17

هكذا من الاعلى

هكذا من الأصل

THE NEW SEVERN BRIDGE



Looking across the Severn Estuary from one of the new bridge's 137-metre high pylons

Picture: Tony Andrews

The new highway, on the UK's longest bridge, over the Severn estuary will help to boost the economic fortunes of south Wales and the west of England, writes Roland Adburgham

Wales and England narrow the gap

The new bridge connecting the west of England and south Wales, to be given a royal opening on June 5, is destined to become one of the UK's finest man-made landmarks.

Some structures augment the landscape and the spectacular £330m bridge over the Severn estuary demonstrates the point. Visitors already flock to admire its cable-stayed main span and the approach viaducts which curve like stepping stones across the Severn estuary. The overall length of three miles (5km) makes it the longest bridge in the UK.

Bridges are symbols as well as structures and, by being a national focus of attention, the new crossing should raise the profile of the surrounding regions. It is the most important piece of infrastructure to be created there since the first Severn bridge was opened 30 years ago.

The first crossing helped to attract a chain of industries along the M4 motorway in south Wales, enabling the economy to move from its historical reliance on coal and heavy industry. Today, the M4 stretches from London to beyond Swansea. The regional capital of Bristol in the west of England and the Welsh capital of Cardiff are less than an hour apart.

The first bridge, though, was not designed for the remorseless rise in traffic to more than 19m vehicles a year. The contract to build the second crossing, three miles downstream, was won by the consortium Severn River Crossing – Laing and GTM Entrepose, the contractors; BZW, the Barclays' investment bank; and Bank of America. Construction began four years ago and it has been built to time and budget. SRC's concession runs for up to 30 years to finance, operate and maintain both bridges out of toll revenues – currently £3.80 for a car to enter Wales (it is toll-free eastwards.)

About 70 per cent of estuary traffic is expected to be carried by the new bridge, to which the M4 is rerouted (the motorway over the first suspension bridge is renamed the M48.)

Distances will be slightly shorter and the great increase in traffic capacity should cut queues. The second crossing has three lanes each way and 13 toll booths, compared with the existing two lanes and eight booths.

In addition, a windshield will prevent the traffic restrictions during gales which bedevil the first bridge. The reduced risk of delays will, it is hoped, provide less incentive for trucks to avoid tolls by diverting to unsuitable roads through Gloucestershire.

The approach roads on the English side, for which the Highways Agency is responsible, are only two lanes in each direction and, in due course, this may be seen as short-sighted planning. Their construction is on a tight timetable to meet the June 5 opening. The new M49, which links with the M5 south of the bridge, will not be ready. It is contracted to be finished by end-June.

For Wales, the value of faster east-west communications is shown by a recent study by Cardiff Business School of the upgraded A55 across north Wales. The study concluded that the road had created jobs, reduced transport costs, attracted firms and speeded access to suppliers and customers.

"The economic and social effects of the A55 improvements are much wider than just on manufacturers and distributors," it said, quoting tourism as an example.

"North Wales," the study added, "now faces the positive challenge of becoming a fully integrated part of the UK economy and, by extension, a full part of the European economy of the 21st century."

For south Wales, the second crossing enables that process, initiated by the first bridge, to be accelerated. A report in 1992 by the consultancy Pieda for the Welsh Development Agency predicted: "Possibly the greatest impact of the new crossing will be in the boost it could give to investment opportunities in south Wales." Almost as important as journey time savings would be that "it will change people's perceptions of crossing the estuary".

That factor – the impression, more than the actuality, that it will be quicker to reach south Wales – should counter the disincentive of tolls and encourage investment all along the M4 corridor. Welsh valley towns, too, are hoping it will become easier to lure businesses north of the motorway.

While south Wales stands to gain most, the west of England is also confident of advantages. A survey of chief executives by Burges Salmon, a commercial law firm, for Bristol Chamber of Commerce & Initiative found 82 per cent considered the bridge to be beneficial for businesses, with more than a quarter expecting to increase their own trade with Wales.

The expanded motorway network provides access to large development sites adjacent to the M49 link road and near to the thriving Bristol port. Hard by is Cribbs Causeway, a regional shopping and leisure centre now under construction. Industrial, distribution and business parks along the M4

Continued on next page

VITAL STATISTICS

Overall length	5,168 metres
Main bridge	948 metres
Main span	456 metres
Height of pylons	137 metres
Navigation clearance	37 metres
Number of caissons	37
Volume of concrete	450,000 cu. metres
Weight of reinforcing steel	50,000 tonnes

CONTENTS

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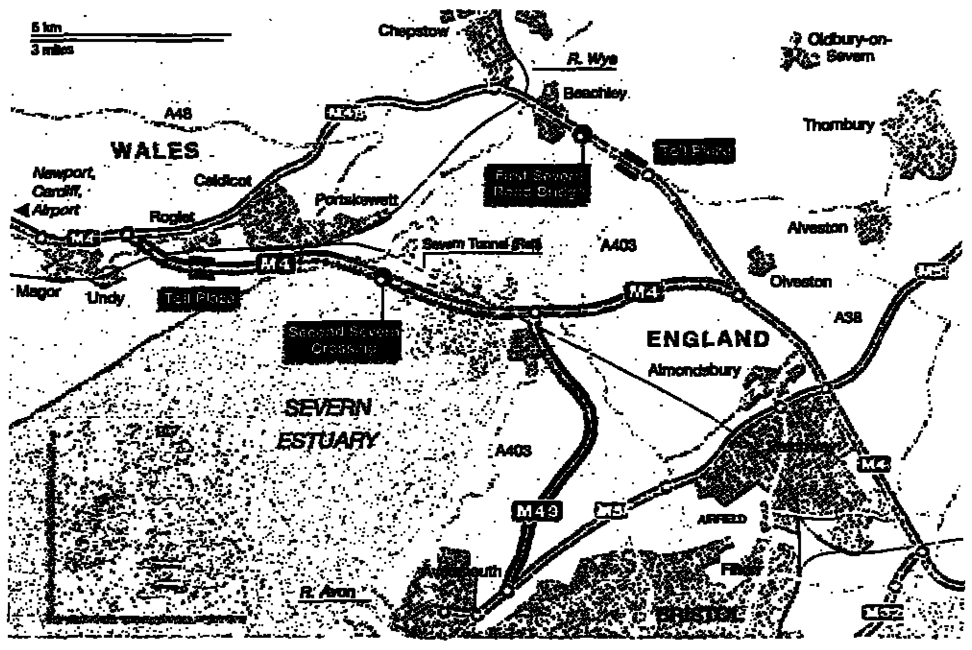


■ FIFTY BUSINESS PEOPLE INVOLVED IN ECONOMIC DEVELOPMENT IN SOUTH WALES AND THE WEST OF ENGLAND ASSESS THE SIGNIFICANCE OF THE NEW ANGLO-WELSH LINK

Good for both countries, but especially Wales

A wide-ranging survey on both sides of the estuary is analysed by Roland Adburgham

A questionnaire about the impact of the second Severn crossing on south Wales and the west of England shows the bridge to be considered as very important for both regions.

The Financial Times' questionnaire solicited the views of 50 leading business people and those involved in economic development on both sides of the Severn estuary. There was consensus that both regions would gain from the bridge, although most thought the greater advantage would accrue to south Wales.

The first question was:

■ What do you consider to be the main direct benefit of the second crossing?

Respondents in Wales stressed the improved access, with reduced travel times and shorter queues at the toll plazas. They placed even more value on the psychological effect – that it would reduce the perception in London and south-east England that south Wales is hard to reach.

Mr John Smith, of Gwent Image Partnership, which promotes south-east Wales as a business location, said the bridge would "instantly remove the common misconception among UK investors that Gwent and south Wales are over 100 miles further away from London than they actually are!"

Mr John Churchill, director of Swansea Centre for Trade & Industry, described the delays on the first bridge as "invariably worse in perception than reality, yet of equal importance in the minds of business people. First impressions count, and if the first view of Wales, obtained by potential investors, is from a traffic jam on the old bridge, the damage is irreparable."

Respondents in England agreed the immediate benefit would be faster and more reliable transport links. Most shared the view of Mr Pat Lee, a director of the transport company Wincanton Logistics, that "South Wales is the clear winner" in terms of improved access to customers. But he added: "The bridge will provide a golden opportunity for many skilled and hi-tech subcontractors in the west of England who will now have access to a wider range of customers."

Mr Edward Lambah-Stoate regional managing partner in Bristol of Grimley, property advisers, said the bridge would "break up the perceived barrier of the Severn estuary and complete the "wealth-generating corridor" of Bridgend to Swindon". And Mr Martin Willey, chief executive of the Western Development Partnership, the economic regeneration agency for the Bristol region, stressed the value of motorway access to act as a catalyst for Severnside development sites.

■ How important is the new bridge to the economic development of south Wales and/or the west of England?

"Exceedingly important for the economic development of south Wales," said Mr Meirion Lewis, director of the Institute of Directors in Wales. "Vital," said Mr John Mitchell, chief executive of Principality, the Welsh-based building society. Mr Gareth George, Wales director of Barclays Bank, agreed – "particularly for the on-going economic development of Cardiff Bay and Newport Docks areas."

On the English side, the bridge is regarded as being of less significance, but it is expected to raise the region's profile. Mr Peter Connor, chief executive of the West of England Development Agency, said: "It consolidates the pivotal strategic location of the west of England at the business heart and crossroads of southern Britain."

■ Do you believe businesses on both sides could gain equally, or one side more than the other, or one at the expense of the other?

Mr Stephen Wilson, senior manager of international services of Bank of Wales, summed up the uncertainty: "It could increase the attraction of south Wales for inward investors by bringing it closer to the hub of industry in the UK. "On the other hand, it could detract from south Wales and strengthen Bristol's position as a regional centre by making it easier for people within south Wales to travel to Bristol. Equally, the reverse could be true – as Cardiff gains in importance as a capital city, the attraction to businesses and business people across the channel will increase."

Barry Hartop: It improves access from Wales to SE England and mainland Europe as well as allowing just-in-time delivery processes to operate along the M4 corridor

Peter McIlwraith: If I have one hope for the new crossing, it is that it can bring those major business centres [Bristol and Cardiff] closer together – physically and mentally

Elizabeth Haywood: The first bridge simply could not cope with increased traffic flows which would severely limit economic development in south Wales

Michael Boyce: It reinforces the confidence of inward investors in the region's enormous potential growth, allied to better unit costs. It should also impact on tourism.

Michael Rees: The new crossing and the upgrading of the road network provide a catalyst which will take away the last psychological barrier of the river Severn

Mr Stephen Hill, of Cardiff Business School, said: "Wales will benefit more by being allowed better access to a larger market. Improved connections to Ireland will lessen its peripheral status." Mr George expected Welsh industry to gain more than its English counterparts – "however, there will clearly be individual winners on both sides".

Mr Chris Graham, Cardiff director of 3i, the venture capital group, considered both would gain. "The two regions will become economically closer. Financial services already operate 'across the bridge'."

Mr Mitchell believed that, while both sides could gain equally, "South Wales will make better use of the opportunity". A similar view is held by Mr Phil Nunnerley, Wales and West regional director of Lloyds Bank. "Potentially both sides should gain, but I suspect south Wales may take earlier advantage."

Mr Michael Rees, director in Cardiff of Chesterton, the property consultants, is certain of that. "Wales will undoubtedly win the day...Local authorities, government agencies and businesses seem to work much better together in Wales than in England. There would seem a much more get-up-and-go approach to economic development in Wales."

Dr Elizabeth Haywood, director of the Confederation of British Industry in Wales, and her south-west counterpart, Sue Boyd, agreed there was the potential for both sides to benefit. But Ms Boyd added: "The concern for the south-west must be the noteworthy track record of the Welsh Development Agency which, I am sure, will not be backward in using the new bridge to attract companies to the principality." A recent CBI report had shown the need for economic development agencies in the south-west to co-ordinate their activities.

Mr Mike French, of Somerset Economic Partnership, emphasised the worry in the west: "Given the current central government and European grant regime, the Welsh side will continue to benefit at the expense of the west of England." Mr Willey protests at "the unfairness of continued levels of public investment in south Wales out of all proportion to such investment in the west of England. If the playing field were level, both sides would benefit equally."

■ Do you consider the level of tolls to be a serious disadvantage?

Those representing the haulage industry were categoric. Mr Frank Cook, western director of the Freight Transport Association, stated: "The tolls, their overall level, their regime and their image are bad news across the board." Mr Michael Farmer, Midlands and western director of the Road Haulage Association, described as excessive the toll increases to £11.50 for trucks.

In Wales, most also condemned the tolls – especially the "negative impression" caused by the charge being levied on entry to the country. Mrs Molly Owen, chief executive of Wales Chamber of Commerce & Industry, stated: "The tolls are an unfair additional tax burden on Welsh business." Dr Haywood said: "They are a major burden for low-value, high-volume products."

Some are more sanguine. Mr Mitchell called the tolls "a disadvantage, but not serious," while Mr Graham remarked: "More whinges than reality!" And Mr Chris Thorne, managing partner in the south-west and south Wales of Henry Butcher, property and plant consultants, said: "We have not found them to be a major factor in determining most business's strategic location decisions."

In England, the tolls are less of a bone of contention. But Mr Warwick Jones, associate dean of Bristol Business School, commented: "Tolls should not be used in an ad hoc way – they are creating a regional additional cost."

■ How much of an asset will be the bridge in marketing the regions to inward investors?

In Wales, there is great enthusiasm. Mr Barry Hartop, chief executive of the WDA, described it as "invaluable because of the impact it will have on the perception of easy access to the Welsh and UK markets". Mr Michael Boyce, chief executive of Cardiff Bay Development corporation, said: "It will further reinforce the region's physical accessibility to major markets."

Mr Alun Davies, director of Grosvenor Waterside, the property arm of Associated British Ports, hailed it as "an enormous symbol of progress and good communications". Mr Alun Bowen, senior partner in Cardiff of KPMG, the accountancy firm, said: "The new bridge will provide an icon which will be of great value in marketing."

The English side shares much of that confidence. Mr Connor stated: "It will support the immediate international recognition of the region." Mr Willey of the WDP said: "As a major engineering project of international status, the new crossing helps draw attention to the area." Mr Ken Johnson, project director of English Partnerships in Bristol, called it "extremely important – on a site-specific basis for the west of England and on a wider regional basis for south Wales."

Mr Lambah-Stoate considered that "the bridge as a link should bring the regions closer together and thereby provide a powerful marketing tool for the combined area". Mr Bob McKinlay, president of Bristol Chamber of Commerce & Industry, agreed: "There will be a visible demonstration of the quality of communications between the two regions." And Mr St John Hartnell, senior partner of Hartnell Taylor Cook, Bristol-based property surveyors, saw the bridge as giving "industry, in particular, the confidence to expand on either side of the bridge".

A view from both sides of the Bristol Channel was put by Mr Peter McIlwraith, partner in charge of Price Waterhouse's offices in Bristol and Cardiff. He said: "For those marketing south Wales to inward investors, the new crossing has the potential to be positioned as an enormously important new asset...The new bridge can also strengthen the hand of those marketing Severnside and the West of England. It underlines the importance of Bristol as the western hub."

And Mr Mike Jones, managing director of Brymon, the British Airways subsidiary, said: "The new bridge has to add to the international appeal of both regions."

■ In terms of infrastructure, what do you regard as the next priority?

In Wales, Mr Hartop was among those calling for the proposed M4 motorway relief road south of Newport. Like others, he emphasised the need for the planned Eurorail freight terminal near Cardiff.

But in both regions, improved air links are seen as the main priority. Mr Hartop called for "a good, commercial regional airport with a high level of scheduled air passenger traffic and freight and good road/rail links to it." This was echoed in the west of England, where the government's rejection of BAe's plan for an airport at Filton, north Bristol, is widely criticised.

BAe is challenging the decision but, in the meantime, there are calls for the existing Bristol airport at Lulsgate to be improved. Mr Grant Watson, senior partner of Alder King, Bristol-based property consultants, would like a motorway link to regenerate south Bristol and improve access to the airport.

Mr Willey agrees. But he cautions: "Whether the international business needs of the region can be satisfied at Lulsgate has yet to be shown."

Fast highway across the estuary

Contd. from previous page

eastwards towards Swindon, and up and down the M5 motorway, should also benefit.

One immediate initiative is the M5 Somerset Consortium, backed by Somerset Economic Partnership and local councils, to stimulate development in the M5 corridor. "It is no accident that the launch coincides with the opening of the second crossing," says Mr Michael French, the consortium's chairman. "Our outstanding motorway links make us well placed to serve not only the entire south-west region but also south and mid Wales."

Somerset Economic Partnership is one of the agencies which have sprung up in the west of England, as the region belatedly becomes more active in seeking investment. Although it cannot offer the incentive of the European and UK grants available in much of south Wales, the region has also lacked the finely-honed "Team Wales" approach, with the Welsh Office, WDA, councils and other bodies co-operating to win investment.

In addition to Somerset, the west's four other counties – Dorset, Gloucestershire, Wiltshire and the recently disbanded Avon – have all formed economic partnerships. Closest to the new bridge is the Western Development Partnership, a public and private sector agency based in Bristol and which aims to make the area "one of the most prosperous and technically advanced in Europe".

The plethora of partnerships indicates the tortuous process by which the west is beginning to assert a regional identity to gain more recognition within Europe and beyond. One reward for its more united approach was that, last year, the Department of Trade and Industry agreed to provide funding towards a West of England Development Agency to seek foreign investment.

Mr Peter Connor, the agency's chief executive, sees the west as a "sleeping tiger" in terms of international investment, in contrast to its success in attracting UK relocation. Given the limited resources of WEDA, its strategy is to take a sectoral rather than scattergun approach. Mr Connor says: "Those regions which are most successful today connect into a global network of similar locations."

He is convinced the west can become recognised as a "driver region" in European terms. "It is a fabulous region we already have here – it is how you market it that is important."

In marketing the two sides of the Severn estuary, some business people hope the bridge may encourage the two regions, despite their long rivalry, to become more of an economic entity.

Closer ties may form in time, although the Pieda study calculated that narrow wage differentials would not usually compensate for transport costs and so there would be little growth in cross-estuary commuting. This would not be sufficient to increase integration of the labour markets.

Instead, the two regions could be seen as having complementary strengths. Cardiff and Bristol, with newly-created unitary councils holding greater powers, are determined to project themselves more vigorously on the national and European stage.

Cardiff, for example, is winning attention through its Cardiff Bay regeneration, and in 1999 will host the rugby world cup.

Bristol has its Harbourside waterfront scheme to restore vitality to the city centre. Next week, Bristol hosts a four-day international sea festival which will display the city to a wider world.

In that world, Bristol is recognised by its most famous landmark: Brunel's Clifton suspension bridge. Another bridge now adds to the renown of the region, and to south Wales. One cannot assume, though, that it will have an evocative name.

The first crossing is simply called the Severn bridge – Pont Hafren in Welsh – and SRC says its twin will be known by its prosaic description: the Second Severn Crossing.

TRANSPORT OVERVIEW: by Charles Batchelor

Wales draws closer to Europe

Changes in rail, air and road travel are helping to ease the geographical isolation of Wales

The widespread view that south Wales is a difficult place to reach will be weakened by the new Severn Bridge, which is designed to carry traffic in all weathers. That, at least, is the hope of local authorities and other organisations involved in the economic regeneration of the region.

But while an improvement in road links with the rest of the UK is important, it is only one facet of the transport infrastructure of south Wales and the south west of England. Rail, air and sea connections also have a significant role to play in the success of the local economy.

Passenger rail links with London and the rest of the UK are undergoing change as part of the privatisation of British Ra. } Great Western services between Fishguard, Penzance and London were among the first to be franchised to the private sector. A combination of Great Western's management and the FirstBus bus group took over in February.

Most existing services have been guaranteed and the company is looking at the possibility of splitting some of its high speed trains, which currently have eight coaches, into four-coach groupings, to increase frequencies. Train interiors are to be upgraded and Great Western is also considering introducing tilting trains. This would allow it to reduce journey times without the need for costly investments in straightening the track.

Coaches have been allocated in both first and standard class on trains to allow business people to work quietly without the disturbance of mobile phones and personal stereos. Special facilities for families have been promised in the next few months.

Two more franchises, for the South Wales & West company and the Cardiff Railway company, were offered in March and initial bids must be made by June. These two companies are very different: SWW operates over more than 1,500 miles between Cardiff, Manchester, Penzance and Brighton while Cardiff has just 86 route miles in the Cardiff valleys to destinations such as Rhymney and Merthyr Tydfil.

The long-term impact of rail privatisation is still unclear. Its critics fear it will lead to a fragmentation of rail services and a decline in quality. The managers who are taking over the new lines say that by concentrating on their own local market place they will be able to provide a better service for travellers.

Rail freight links between the region and the rest of the UK are the subject of some controversy. Shipments of heavy cargoes such as steel and coal are well established but "intermodal" shipments – involving transferring containers between trucks and trains – are poorly served. A decision on a new intermodal rail terminal to connect with Channel tunnel services has been long delayed although the government came down in favour of a site at Wentloog near Cardiff in April.

Improving international rail links and the spread of high-speed rail services are beginning to provide tough competition for the airlines over short-haul routes. But air links remain an important symbol of a region's credibility for many local businesses and prospective inward investors.

Cardiff Airport was acquired from the three county councils which were its original owners by TBI, a property investment group, in March 1995. TBI, which had no previous experience of running airports, has since announced plans to spend £20m over the next four years on improvements.

Eighty per cent of the airport's passenger traffic is accounted for by charter flights while scheduled carriers are principally British Airways Express, Manx Airlines, and KLM, the Dutch airline. The main destinations served include Belfast, Dublin, Glasgow, Brussels, Paris, Amsterdam and Jersey. Ryan Air added a Dublin service this month.

> Further improvements will be needed to make the network fully fit for the 21st century

TBI wants to expand international and domestic scheduled services as well as the tour business. It is also pressing for an improvement in road links between the airport and Cardiff.

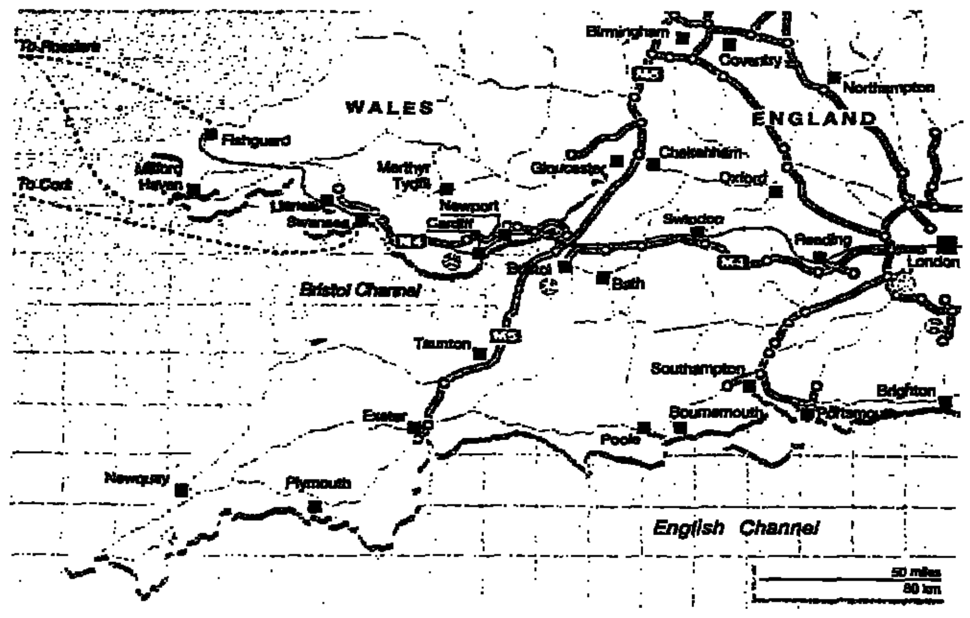
Across the River Severn Bristol Airport has faced a period of uncertainty while a decision was taken over a proposal to develop British Aerospace's airfield at Filton, north of Bristol, into a commercial airport.

Last March, the government backed the recommendation of a planning inspector, who headed a public inquiry, to refuse permission. BAe is appealing against the decision. The business community had supported the BAe proposal on the grounds that Bristol lacked a well-located regional airport but local residents had opposed the plan.

Filton is close to the M4 and M5 motorways and the main rail line to London and South Wales. The existing Bristol Airport, south of the city at Lulsgate, suffers from poor access and diversions caused by bad weather.

The decision on Filton means that Bristol Airport, which is owned by the city council, can go ahead with plans to spend £17m on doubling capacity of its terminal to 2m passengers a year. The airport handled 1.5m passengers in the year ended March 1996.

Airports and rail terminals may be poised for further growth but the sea ports of south Wales have been hit by declining coal shipments and the shift in UK trade from its Atlantic to its European ports on the east coast.



With the exception of Milford Haven, which is dependent almost entirely on oil shipments, the main ports of south Wales are owned by Associated British Ports. ABP, which operates a total of 22 ports around the UK, owns Newport, Cardiff, Barry, Port Talbot and Swansea.

These ports handle a variety of products and produce including animal feeds, steel slab, tropical fruits and timber. Newport is developing its animal feeds business to compensate for the loss to Tilbury of timber shipments from Canada while recent investment by British Steel in its Llanwern steel mill has boosted cargoes of steel slab. Swansea, meanwhile, has made a speciality of containerised coal shipments.

But some observers feel that the changing patterns of trade and the decline of coal mining and heavy manufacturing have left south Wales with too many ports. The region might be served by just two, *Lloyd's List*, the shipping newspaper, suggested in a recent review.

The present redevelopment of Cardiff Bay could be extended to other areas of docks, allowing for cargo-handling to be moved away, it said. Barry docks are also in the centre of the town and could provide land suitable for other property developments.

The completion of the second Severn crossing marks an important step forward for the economy of south Wales and the south-west. But further improvements will be needed if the region is to have a transport network fully fit for the 21st century.

HOW IT WAS FINANCED: by Andrew Adonis

For whom the toll pays

Motorists, rather than taxpayers, are providing the cash for the privately financed project

The Second Severn Crossing is a flagship project for the Private Finance Initiative (PFI), the government's policy for boosting the role of the private sector in state-sponsored investment.

The core principle of the PFI is simple: that the private sector should take responsibility for financing and managing infrastructure to a specification agreed with the public sector. This implies not only private funding and management, but a significant transfer of risk from the state to the private operator.

In other words, PFI is an extreme form of contracting. It is almost pointless to attempt to define it further, given the wide variation between different types of PFI project. In the case of prisons, hospitals and roads, for instance, most of a contractor's revenue comes from the government or its agencies (like health service trusts) through complicated arrangements of charges related to volume and performance.

The Severn Crossing, by contrast, has a large private revenue stream and involves no payments by the public sector. All the revenue comes directly from motorists via tolls. The government's role is threefold: it awarded the initial contract; it has enforcement powers in case of default; and it regulates the income of the winning Laing-GTM consortium through a cap on toll levels related to the retail price index and a further cap on the total revenue the consortium can make over the 30 year concession.

The Treasury highlights the transfer of risk from the public to private sector as critical to the PFI. A subtle shift has taken place from an early emphasis on shifting "maximum" risk to transferring "optimal" risk.

Mr Jim Armstrong, Laing's finance director, believes the risk transfer was "based on the right principles – seeking to transfer to us risks which we can manage". Laing-GTM took on traffic volume risk, but the government bore risk of ensuring that connecting roads were provided on time, and agreed that the consortium's revenue entitlement would be amended if future legislation or taxation affected it adversely.

However, neither Laing nor its financial advisers extol the Second Severn Crossing as a model PFI project. Mr Armstrong complains that the contract is "far too inflexible", with its tight revenue caps. He says: "I would far rather the government was acting as an equity partner and making joint decisions with the private sector on pricing policy when fundamental changes to base case assumptions occur."

In effect, Mr Armstrong wants to see a radical recasting of the public-private relationship inherent in the PFI concept. Under the current regime, as reflected in the Severn Crossing, the public sector takes no part in the financing of the venture it sponsors, but instead contracts for the provision of a service and acts as an arm's length *external* regulator. By contrast, Mr Armstrong wants to see the government act as a minority partner in the financing of the project, with appropriate representation on its board, and stand back from highly prescriptive regulation, particularly of tolls. Under such an arrangement there need not be a fixed concession length.

"We have a straitjacket on all these projects at the moment, which serves the government badly if it wants a dynamic market for PFI contracts," says Mr Armstrong. "At the moment the growth potential is severely constrained."

Mr Chris Elliott, managing director of structured finance at BZW, the investment banking division of Barclays, who advised on the project, develops the "straitjacket" theme. Under the Severn contract, a franchise is awarded to "Severn River Crossing plc", an operating company with four shareholders (Laing and GTM with 35 per cent each, Bank of America International Finance Corporation with 15 per cent, and BZW with 15 per cent). The franchise is not transferable to any other entity.

Mr Elliott believes the inability to transfer contracts will inhibit the growth of a "PFI operating sector" because of the requirement to have a separate, free-standing venture for each project, irrespective of size. "This is a significant disincentive to the development of an effective market in PFI companies."

Mr Elliott believes the main ingredients of the PFI are now stable, but as the number of PFI contracts rises sharply, "it will look increasingly odd to have a patchwork of small free-standing operators in each sector unable to merge or transfer their undertakings."

This raises two wider issues. Sector by sector, the PFI is forcing the creation of new types of commercial venture to undertake the combined construction, operating and financing dimensions to PFI contracts. As markets develop, will a consolidation of operating companies take place so that, say, there are three or four principal operators of toll bridges and roads?

Such consolidation appears inevitable. The question is how it will come about. In the case of new contracts, the prospects are clear enough, since the "streamlined" market of consortia will be the only ones bidding. But the implications for the contracts already agreed are uncertain – and that may include the Severn Crossing, which is one of the earliest.

Then there is the issue of financing PFI projects. Until now, most of the finance has been in the form of debt, with little equity. As operating consortia become bigger and better established, the proportion of equity might be expected to rise. But few in the City are prepared to estimate how fast this process will advance.

The PFI is still in its early days, and it is far from clear how it will evolve. Not least of the uncertainties is the possibility of a change of government.

■ TOLL BOOTH TECHNOLOGY: by Charles Batchelor

Alarm bells over a costly precedent

Rows over tolls on the first Severn bridge may influence future UK road policy

Sharp increases in the level of tolls charged to cross the Severn Bridge have prompted many drivers to divert to other less suitable roads and have started a heated discussion about the merits of charges on river crossings.

The controversy over the Severn tolls may well have influenced the broader debate over the wisdom of government plans to introduce electronic tolling across the 1,700-mile motorway network. Political sensitivities combined with unexpected technical complications have led to the introduction of tolling being delayed.

Tolls on the Severn Bridge increased fairly sharply after April 1992 when Severn River Crossing (SRC), the private sector consortium building the *second Severn crossing, took* over responsibility for the bridge. Tolls had been payable both ways across the bridge but the new owner began collecting them only on the westward journey into Wales.

Matters were made worse in 1993 when discounted pre-paid vouchers were withdrawn and replaced by "trip passes" and vehicle tags. Hauliers resented these two schemes because they required payment in advance and they did not provide discounts for multiple journeys.

The result was that 2,500 west-bound drivers a day diverted through Gloucestershire to avoid the tolls although toll-free return journeys to England were made across the bridge. About 1,000 vehicles which chose other routes were heavy trucks, according to a study by the Highways Agency.

Reintroducing a 10 per cent discount for multiple journeys would persuade many drivers *back to the bridge* and could even boost revenues by generating additional traffic, according to a study by Cardiff Business School for the Freight Transport Association and the Road Haulage Association.

The two associations hope to bring pressure on the government to persuade SRC to reduce its charges but they acknowledge that there are limits to ministers' influence on a private sector company.

The government does not appear to be susceptible to arguments that bridges and tunnels are as much a part of the road system as any other stretch of tarmac and that specific payments to use them are anomalous. The opposite is the case. The government appears now to be set on charging for large parts of the roads network, though it has not decided precisely how.

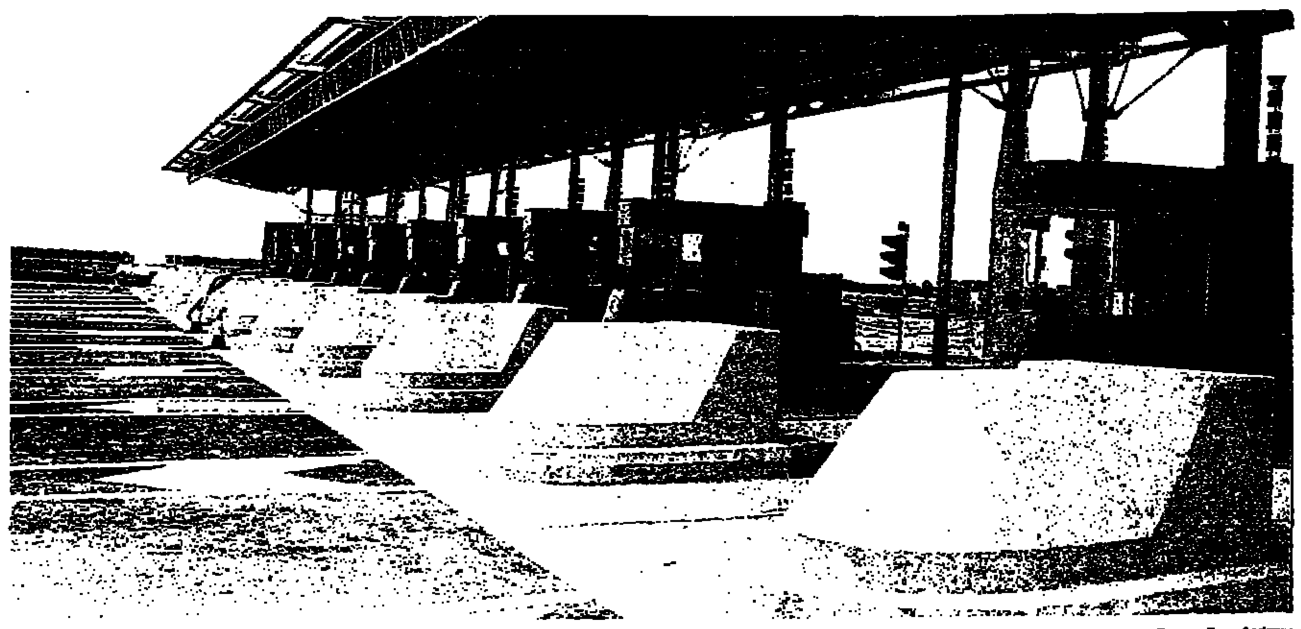
Plans first announced in 1993 for a system of electronic charging for motorways have been thrown into disarray by the withdrawal of half of the eight companies which were originally selected to take part in trials.

They have withdrawn because they do not now believe that electronic tolling will be introduced in the near future while the government expects them to bear an inordinate share of the costs. Some believe that it would make more sense gradually to extend the tolling systems in place on bridges and tunnels instead of devising a completely new system from scratch.

The government is looking at systems which would register the passage of a vehicle and either deduct a charge from a smart card behind the vehicle's windscreen or record the journey for billing later. It is comparing systems which work by microwave, infra-red and global positioning satellite technology.

The government insists that it is pressing ahead with its plans but plans for trials on the Transport Research Laboratory's test track and in "live" conditions on the M3 motorway in Hampshire have been delayed for six to 12 months.

The problem lies in devising a system which can deal with the busy traffic conditions on Britain's motorways without slowing traffic. Obtaining sufficient accuracy is also important so that drivers do not avoid paying or are charged in error when they have not made a journey.



Toll booths on the new Severn bridge: the motorways may be next in line

Picture: Tony Andrews

Parliamentary way to raise cash

When the first Severn bridge was envisaged, it was to be funded by the government as part of the trunk road network (writes ROLAND ADBURGHAM). But in 1965, when it was close to completion, the Severn Bridge Tolls Act established the right of the government to charge tolls to cover the construction and maintenance costs.

In 1992, when Severn River Crossing took over responsibility for the bridge, the toll was £1 for cars and £2 for heavy goods vehicles. SRC changed the tolling regime to levy the tolls in the westbound direction only, and charged £2.80 for cars and £8.40 for trucks.

Today, the toll – which will be the same on the new bridge – is £3.80 for cars, £7.70 for small goods vehicles, and £11.50 for heavy goods vehicles.

The formula by which SRC levies the tolls is stipulated in the Severn Bridges Act 1992. Since January last year, SRC has been restricted to annual increases of not more than the rate of inflation. This will remain the case for the remaining years of the company's 30-year concession.

■ GEOGRAPHY: by Roland Adburgham

Ice Age left a watery legacy

Since the dawn of history, the estuary and the Bristol Channel have been a barrier to travellers

Those who complain about the stiff tolls on the Severn bridges might reflect that, had they crossed the estuary by ferry 200 years ago with a coach and two horses, the fee would have been 12 shillings (60p). For a man and his horse – perhaps the nearest equivalent to today's motorist – the cost in the 1750s was one shilling.

For that, the horseman could have hired a farm labourer for a day, or downed eight pints of strong ale. Today's car toll of £3.80 would merely purchase a couple of pints.

If one had made the journey 10,000 years ago, there would have been no need to pay – because what became the Severn estuary was then a dry valley. From its source in the Welsh mountains, the Severn originally ran northwards to join the river Dee. The Ice Age blocked this channel and, eventually, the impounded water overflowed southwards to take its present course.

The estuary and Bristol Channel then became almost as divisive as the English Channel in shaping the contrasting character of the people on either side. The estuary's extreme tidal range and ferocious currents made the crossing hazardous and, for centuries, this acted as a cultural and economic barrier, fostering rivalry that still exists.

Cross-channel trade, however, began at least as early as the Iron Age. The Silures, a Celtic tribe which dominated south-east Wales, established a fort at Sudbrook, near the Welsh side of today's second bridge. When the Romans came and subjugated the Silures, they are believed to have run a ferry to service their garrisons at Caerwent and Caerleon.

Proof of a ferry in the Middle Ages between Aust and Beachley – where the estuary narrows and on the site of today's suspension bridge – is found in the charters of Tintern Abbey. That ferry became known as the Old Passage after a second service, called the New Passage, was set up in competition. To summon the ferrymen from the other bank, waiting passengers are said to have lit bundles of straw.

In 1823, the Scottish engineer Thomas Telford was appointed to improve the mail routes and he built a stone pier for the Old Passage. Research by the former Gwent county council discovered that the ferry, in one four-month period, carried 7,204 passengers, 502 carriages, 30 wagons and carts, 1,387 horses, 673 cattle and 8,181 pigs.

Telford – who designed the Menai Straits bridge in north Wales – is given credit for first proposing a suspension bridge between Aust and Beachley. That plan came to naught. Instead, the next local transport improvement was the Gloucester and Sharpness canal, which opened in 1827 and made Gloucester an important inland port.

Meanwhile, coastal vessels were regularly plying across the Bristol Channel. Welsh produce would be shipped to feed the people of Bristol, and the boats would return with the city's manufactured goods and tobacco and chocolate.

Jan Morris, in her book *The Matter of Wales*, writes: "Some families made a living collecting snails for Bristolians, who were popularly supposed to live on them (though actually the chief customers were blowers in the Bristol glass factories, who ate them as a prophylactic against tuberculosis)."

The first railway link came in 1863, with the river crossed by a steamer ferry plying between the tracks on two piers. A rail bridge was opened in 1879 upstream at Sharpness, but this was soon supplanted by a tunnel for the Great Western Railway's mainline between London and Cardiff, on a route which is now crossed by one of the viaducts of the new bridge.

More than 3,500 men worked on building the tunnel, which is more than four miles long. Services began in 1886, reducing the travel time between Cardiff and Bristol from two and a half hours to 75 minutes. The tunnel enjoyed an excellent safety record until four years ago, when one train ran into another and 185 people were hurt. Since then, a £6m safety improvement project has been in progress.

The railway immediately sank the train steamer service and caused ports such as Bridgwater to lose coastal traffic. *Bristol itself had* already lost trade to other ports because its docks were handicapped by the tortuous tidal route of the river Avon. Meanwhile, ports in south Wales were booming with exports of coal, steel and iron.

"Towards the end of the 19th century, the Port of Bristol belatedly accepted that there had to be docks at the mouth of the Avon. Today, the privatised docks of Avonmouth and Royal Portbury (they were in council ownership until five years ago) are flourishing.

Inevitably, the relentless rise of motoring after the first world war fuelled demand for a car ferry to avoid the 65-mile detour via Gloucester. A combined road and rail crossing was proposed in 1923 as a joint venture between Great Western Railway and the government. This plan was dropped, as was a subsequent road bridge scheme after opposition by rail and dock owners. Instead, a car ferry was launched in the 1930s by a former architect, Enoch Williams. Within a few years, the long delays on both sides encouraged renewed demands for a bridge. The Ministry of Transport dragged its feet and construction of the suspension bridge did not begin until 1961.

When the bridge opened in September 1966, it immediately killed off the car ferry. In the first three days, 100,000 vehicles carrying trippers and sightseers converged upon it, causing 15-mile queues. The toll was no deterrent, compared with the 1750s or even today. For a car, it was only *half a crown* (12.5p).

Journey's end: remains of a 13th century boat, possibly used for carrying iron ore, raised from the estuary mud near Magor Pill in Gwent

Picture: Western Daily Press

Ferries could make a come back

The idea of Bristol Channel ferries has been revived for carrying day-trippers between the west country and south Wales.

Studies by the consultancy Beckett Rankine Partnership have shown a fast ferry service would be feasible, and market research has found sufficient demand on both sides of the channel to make it viable.

Two paddle steamers, the Balmoral and Waverley, already run pleasure trips in the channel, but the intention is that ferries could provide scheduled services on several possible routes.

It has been estimated that an annual spend of £2.5m and 100 jobs could be generated and talks are taking place with four potential operators.

"There is an enormous amount of interest," says Mr Peter Cole of Tourism South and West Wales, who heads the project's action group which is supported by local authorities and tourism bodies in Wales and the west country. "I'm sure there will be more maritime activity in the channel," he says, "and I'd love to think there will be scheduled services."

■ RAIL CONNECTIONS: by Charles Batchelor

Still out on a limb

Cardiff failed to win a Chunnel passenger terminal but may still get a freight facility

South Wales and the West of England are poorly served by direct rail freight links through the Channel tunnel. When British Rail first drew up plans for a network of "intermodal" freight terminals – switching containers between trucks and trains – in the late 1980s Cardiff was due to have one of 12 terminals planned for around the UK.

But the privatisation of BR, financial constraints on rail managers and the lack of a comprehensive overall government plan for exploiting the potential of the tunnel meant that in the intervening years Cardiff was dropped from the list.

The city still has a rail terminal, at Rover Way, but it is managed by BR's Freightliner subsidiary – which is to be sold in the next few months – and is used for domestic shipments of chemicals, paper, steel and electrical goods. Two trains in and out each day serve deep-sea and European ports such as Liverpool, Felixstowe and Tilbury.

Railfreight Distribution, the BR company responsible for Channel tunnel freight shipments, says one reason for the failure to develop Cardiff as a Euroterminal was the lack of demand for shipments. "We have no plans for a terminal," a spokesman said. "If the demand was there we would be happy to service it but there is no easily identifiable volume of traffic."

But private developers and local authorities do not share this view. There have been two rival schemes for a rail freight terminal in south Wales while across the Severn Estuary there are also proposals for a terminal at Avonmouth.

Mr William Hague, Welsh secretary, gave his backing to a site at Wentloog, on the eastern edge of Cardiff, in April. This project is being promoted by the local authority, Welsh Water, Associated British Ports and the site's owner, Euroclad. They have joined together to form Cardiff International Rail Freight Terminal to build a £13m freight-handling facility.

The city council and the Welsh Development Agency are both keen to develop the site as part of a regeneration project which would ultimately provide between 10,000 and 15,000 jobs.

Both road and rail improvements are needed to bring this development about and to maximise the benefits. There are already plans for spending £10m on road improvements at Wentloog but the council is keen to keep heavy freight shipments off the roads.

A rival site at Magor near Newport had been proposed by Morrison Developments, a Scottish company. It hoped to build a European freight terminal as part of a 224-acre distribution centre called Gwent Euro Park. The distribution park, near junction 23 of the M4 motorway, is a few minutes from the new crossing.

Newport borough council gave outline planning permission for the 32-acre freight terminal, which was to have been on spare land at British Steel's Llanwern works on the north-west corner of the distribution park.

Tesco already operates a regional dry goods distribution centre on the Euro Park and Morrison recently won financial backing to develop stage two with a further 2.6m square feet of distribution space.

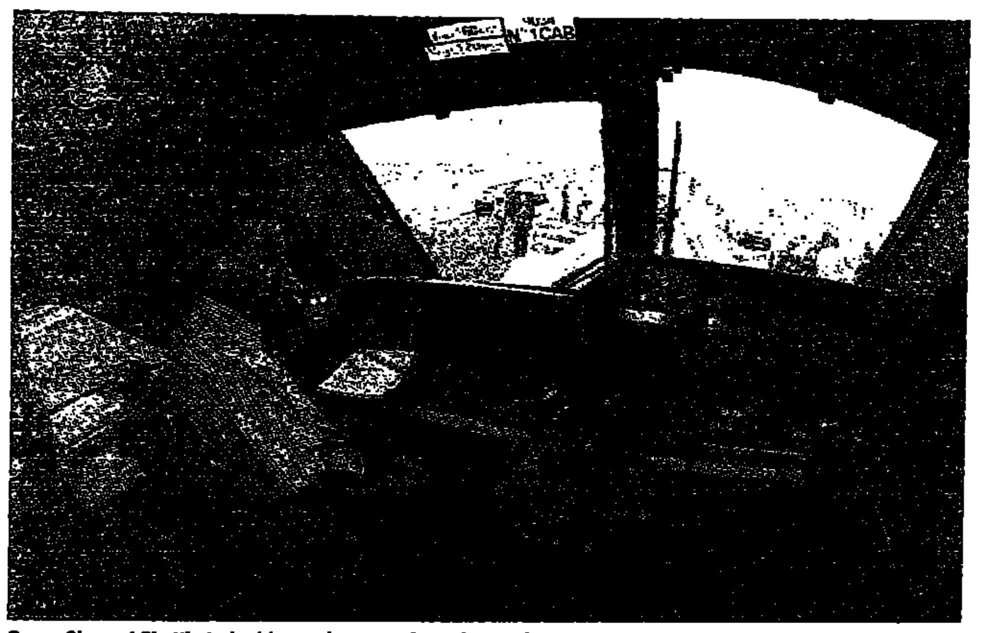
The rivalry between the two sites was keen but, according to one property market specialist, the Cardiff project always had the edge because of its proximity to the Welsh capital.

Across the Severn at Avonmouth, near Bristol, outline planning consent has been given for a rail terminal to be built on 125 acres of land owned by Western Properties, part of RTZ-CRA mining group.

Outline planning permission was given in September 1994 but progress since then has been held up by local government changes and the handover of responsibility for highway matters from the now abolished county of Avon to Bristol city council. But RTZ-CRA remains confident that the project will go ahead and is in negotiations with freight operators to run services from the terminal.

Some people in the railway industry fear that without a strong commitment from a rail freight operator to run trains to some of the sites being developed around the country they could just end up as industrial estates. Uncertainty over the future of Railfreight Distribution, which has yet to be privatised, has added to these fears.

The hope is that Railfreight Distribution or rival freight operators will grasp the opportunity and help fulfil the government's promise to move more freight from road to rail.



Cross-Channel Shuttle train driver: a long way from the south west

■ THE ENVIRONMENTAL BALANCE: by Roland Adburgham

Where sea meets the sky

On land and water, the estuary is one of Britain's most environmentally sensitive areas

The Severn estuary epitomises the acute dilemma in trying to strike a balance between industrial activity and conservation.

The Severn is Britain's longest river – 220 miles (354km) – and has more tributaries than any other. Its estuary, flowing into the Bristol Channel, is one of the UK's largest and most dynamic. It has the second highest tidal range in the world. It is internationally renowned for birds and for its ever-changing views of light, water and landscape.

For centuries, though, the estuary has supported trade, commerce and industry, with a string of ports on both banks. Today, in addition to the towns along its shores – about 1m people live around it – there are power stations and heavy industry such as steelworks and chemical plants.

Inevitably, there are conflicting interests. Port authorities and ship owners have navigational requirements. Fishermen and recreational users such as yachtsmen and water-skiers make other demands. Dredging, coastal defences and the loss of habitat all raise concerns. There is the need to protect bird and marine life and to reduce litter and pollution.

One recent example of the pressures was an attempt by Mr John Gummer, the environment secretary, to avoid the costs of stringent sewage treatment, required to comply with European legislation, by redefining part of the estuary as "coastal waters". Earlier this year, the high court ruled this to be unlawful.

The Sea Empress tanker, which ran aground in February near Milford Haven in south-west Wales, highlighted the opposing interests. The tanker spilled 70,000 tonnes of crude oil which contaminated parts of a beautiful coastline and spread into the Bristol Channel. The three refineries at Milford Haven are a valuable provider of employment in south-west Wales – but so are fishing and tourism which were damaged by the accident.

Cardiff Bay barrage is another example which aroused contention. When completed, it will create a freshwater lake intended to be a catalyst for tourism, leisure and commercial development. But the loss of mudflats for wading birds caused the barrage to be vigorously opposed by conservation groups.

In this case, compensation measures have been agreed under which a bird reserve is being created further up the estuary. It is intended to qualify as a special protection area and the estuary has been proposed as a special area of conservation under the European habitats directive.

Last autumn, Mr William Hague, the Welsh secretary, who has shown more interest in protecting the environment than his predecessor Mr John Redwood, turned down proposals for a barrage across the Usk at Newport. But he did approve a planned motorway relief road south of Newport. This has raised further fears about the impact on wildlife within the Gwent Levels. The approach road for the new bridge crosses these reclaimed wetlands, which have a network of drainage ditches called reens laid out by the Romans.

While the bridge itself is stimulating development in the area, much of it on arable land, two other long-mooted schemes could have a huge impact – although neither is likely to materialise in the foreseeable future. One is a Severn tidal barrage to generate electricity. The other is a Severnside international airport near Newport.

It is not before time, therefore, that a partnership called the Severn Estuary Strategy has been launched this year to discuss the issues and encourage co-ordinated and sustainable management of the estuary. Such a strategy is a relatively novel concept in the UK, although many are now being set up. The government agency English Nature is running an initiative which aims to have management plans covering 80 per cent of estuary waters by the year 2000.

Ms Angela Moffat, the initiative's manager, describes English Nature's role as that of a facilitator. "We are finding the process is working very well. People are talking to each other and lines of communication have been opened up which didn't exist before."

The strategy plans are supported by local authorities, statutory agencies and conservation groups, and industries which have an interest in estuaries are seen as having a crucial part to play. Ms Moffat acknowledges that persuading companies that they can benefit is "a hard nut to crack".

In the case of the Severn, the privatised utility Welsh Water decided last month to join the steering group. Ms Susannah Bleakley, the strategy's project manager, is looking for sponsors for a directory of the estuary's users.

Ms Bleakley, a geologist formerly with Shell, says: "We want to explore competing issues, rather than ignore them, and ensure the many uses of the estuary are planned together. We're a project, a partnership, and a process."

By the end of this year, the steering group intends to produce an issues report, in which the parties detail their concerns, and next year to set up topic groups to seek consensus and prepare draft proposals. Then, in 1988, it is hoped there will be an agreed plan to manage the estuary.

Hard hat monitor keeps watch

The second Severn bridge is believed to be the first project of its kind in the UK to have had a full-time environmental liaison officer during its construction.

When the Bill to build the bridge came before parliament in 1990, an environmental statement was prepared by W S Atkins, the consultancy group, and G. Maunsell, the government's agent for the project, with help from the consultancy SGS Environment. This statement set out how it was intended to minimise the project's ecological impact.

One aspect was to ensure the design and location of the bridge and approach roads took account of the landscape, ecology and local communities. There was then the effect on marine and bird life and estuary currents to be considered. Computer modelling was used to predict flows and silting.

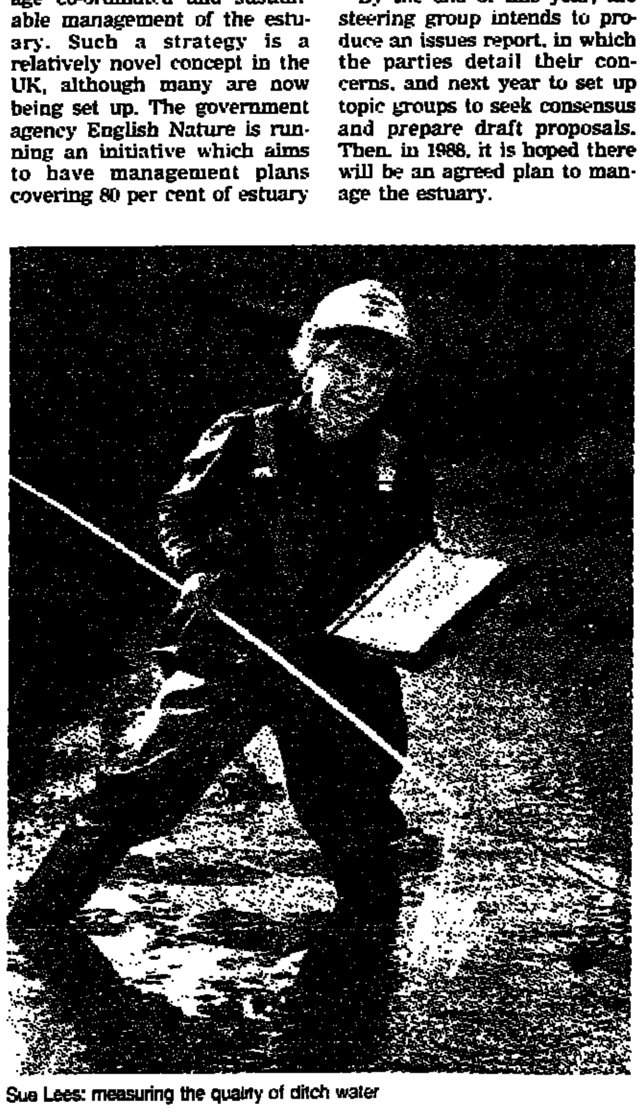
Another aspect was that the approach road crosses Green Belt land in England (as part of the road's landscaping, more than 1m trees and shrubs are being planted). On the Welsh side, there are sites of special scientific interest within the Gwent Levels.

The statement pledged that an environmental liaison officer would be appointed to ensure that Laing-GTM, the contractors, complied with the commitments.

Miss Sue Lees, an ecologist seconded to the post by SGS Environment, has worked on site monitoring the effects of construction such as the water quality of ditches, liaising between groups and dealing with the concerns of residents. "I've thoroughly enjoyed it, but it's also been stressful," she says. Hard-hat teams are not generally noted for their sensitivity to the environment. "Educating them was quite a problem – but we got there in the end."

No serious problems occurred, she said, because work proceeded very carefully due to the importance of the estuary and coastal land.

Now the bridge is complete, the contractors must restore the construction yards to arable land by June next year. Monitoring of the effect of the bridge on banks, mudflats and salt marshes will continue for several more years. "Only time will tell," says Miss Lees.



Sue Lees: measuring the quality of ditch water

THE FIRST BRIDGE: by Roland Adburgham

The beautiful bottleneck

The first bridge is a popular landmark, but strong cross winds can often restrict traffic

Although the first Severn bridge might seem overshadowed by the opening of the second Severn crossing, a tribute has been paid this year to what the Welsh broadcaster Wynford Vaughan-Thomas once described as "this most graceful and impressive of suspension bridges, an elegant and most worthy entrance to Wales".

English Heritage, the government agency responsible for the conservation of historic buildings, has proposed that the bridge should be given a Grade 1 listing, the highest accolade for an architectural structure. It described the bridge as "a revolutionary piece of British engineering".

The 30-year-old bridge is really a combination of crossings, together two miles long. First, on the English side, there is the Aust viaduct, which connects the M4 motorway to the suspension bridge, which has a main span of 988 metres (3,240ft). The Severn at this point is one mile wide. Then there is Beachley viaduct, which crosses a peninsula between the Severn and Wye rivers. Finally, the Wye bridge carries the motorway into Wales.

Consulting engineers were Mott, Hay & Anderson and Freeman Fox, who designed an innovatory road deck for the suspension bridge – streamlined hollow steel boxes to lighten the weight and reduce wind resistance. These sections were floated down the river Wye from the construction yard at Chepstow and hoisted into position.

The bridge was built to withstand winds up to 100mph (which fortunately has not been put to the test). But it was not envisaged that the traffic flow would grow from an average of 6m vehicles a year to more than 19m, and with a great increase in the weight of trucks. Built at a cost of £8m, the bridge has since had many millions more spent on strengthening it.

This work did not obviate the need for a second crossing. Congestion at the toll plazas with tailbacks at peak times reaching several miles, lane closures for maintenance, and the occasional closing of the bridge to high-sided vehicles because of strong winds, all added to the case.

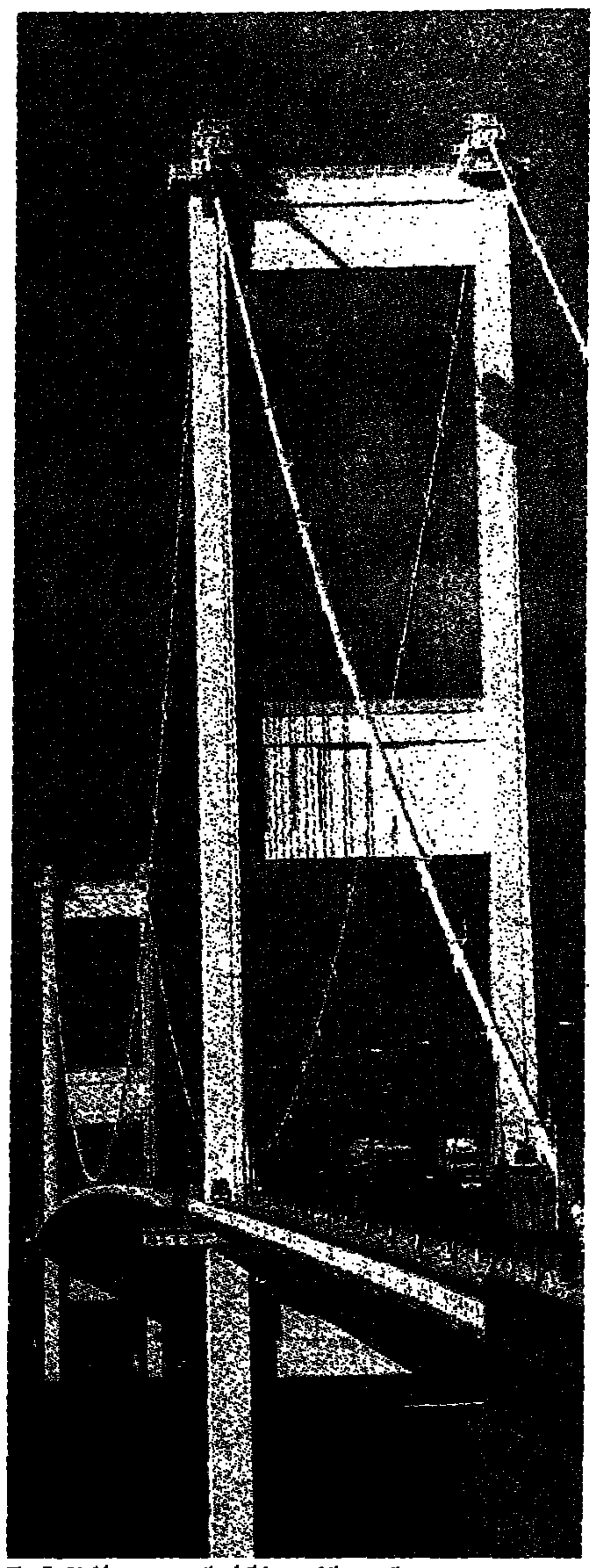
Ten years ago, the government decided there should be a new bridge and the agreement with Severn River Crossing was signed in October 1990. SRC is legally obliged to continue to finance, operate and maintain the first bridge.

If it is listed Grade 1, the consequent restrictions on structural alterations could add to what is already a costly business of repairs and maintenance. SRC, since it took over the bridge in 1992, has spent over £6m. Mr James Clune, SRC's maintenance manager, says: "I have about 90 people employed plus subcontractors."

> Traffic grew unexpectedly from 6m to more than 19m vehicles a year

One contract close to completion is the bridge's repainting. The colour has been transformed from a dowdy battleship-grey to a gleaming white, enhancing the dramatic appearance of the 137 metre (445ft) towers and the main cables.

The change has a practical as well as aesthetic effect. Mr Clune says: "The white colour reflects heat and reduces the temperature of the steel in the towers in summer. This reduces movement in what is a constantly moving structure." No fewer than seven coats and 247,000 litres of paint have been used to withstand the hostile marine environment.



The first bridge: open to the full force of the weather — Picture: Toby Andrews

WELSH PROPERTY PRICES: by Simon London

Ripples spread westwards

Values are bound to rise but the size of the catchment area that benefits remains unclear

The second Severn crossing is bound to have a positive effect on the property markets of south Wales. The question is whether the impact will be limited to areas adjacent to the crossing or ripple westwards across the Principality.

The immediate gains are likely to be strongest in Gwent, especially the area around Newport, which is already presenting itself as a national distribution centre to rival Bristol or the Midlands.

This claim received some support in 1994, when Tesco, the food retail group, decided to build a 600,000 sq ft high bay warehousing and distribution facility at Gwent Europark, Magor, near Newport.

Smaller investments have followed. At the end of last year Christian Salvesen, the distribution group, took a 70,000 sq ft warehouse facility at Newhouse Park, Chepstow.

"Economic prosperity follows lines of communication. The Severn Bridge put Wales on the map as a business location and the second crossing will really open it up," said Mr Michael Rees of Chesterton, the chartered surveyors.

South Wales offers two main advantages over the west of England. First, land prices are significantly lower. Bristol in particular has suffered from a shortage of land suitable for large industrial developments.

In contrast, structure plans drawn up by Gwent county council allocate more than 300 hectares of land for industrial development in the Newport area alone.

New development land is becoming available all the time as former industrial sites are reclaimed. The largest land reclamation scheme in Europe is in progress at Merthyr, to the north of Cardiff.

Second, investors in south Wales qualify for government grants, mainly through the Regional Selective Assistance programme administered by the Welsh Office.

The Welsh Development Agency also provides companies with loans and advice on projects which can include property investments.

In the past these advantages were often outweighed by the perceived fragility of the Severn Bridge as a link with the main UK motorway network. If the bridge was closed due to severe weather or congestion, lorries faced a long haul further north.

The second Severn Crossing should remove this weakness. The reality is that the channel ports are only a four hour drive from Cardiff. Heavy good vehicles can reach Liverpool, Manchester or London in less than three hours.

"The Severn Bridge is a psychological barrier more than a physical barrier. The new crossing will increase interest in Wales as a distribution location," said Mr Bernard Ryan, chief executive of the Land Authority for Wales, which assembles development sites.

Although modern empty industrial buildings are currently in short supply, the WDA and private developers have started to respond by building more speculative units. Morrison Developments recently started infrastructure works on the second phase of Gwent Europark.

There are two clouds on the horizon. First, the second crossing has opened up hundreds of acres of employment land on the Bristol side of the Severn.

Second, government planning policies mean that Wales will soon have to join England in allocating 'green belt' land which must be protected from development. This could restrict the supply of employment land, especially around Cardiff, and possibly drive up land prices.

However, property agents believe that the positive psychological impact of the new crossing will outweigh these factors. In theory this should apply to the office property market as well as industrial and distribution sectors.

Sites such as the 45 acre Celtic Lakes business park, outside Newport, which has been awaiting development since the late 1980s, should receive a boost if more potential tenants add south Wales to their short-lists of potential locations.

> Some smaller regeneration projects further west are expected to be boosted by the new crossing

Cleppa Park, a neighbouring business park owned by Castlemore Securities, the Birmingham-based property company, has been chosen by the WDA as the site for a 27 acre leisure development which will include a multi-screen cinema and bingo complex.

Moreover, the second Severn crossing is part of a programme of infrastructure improvements, including a planned direct motorway link between the new crossing and Cardiff, which could help spread development through south Wales.

"The new crossing has to be seen as part of a package of improvements to the M4," said Mr Ryan.

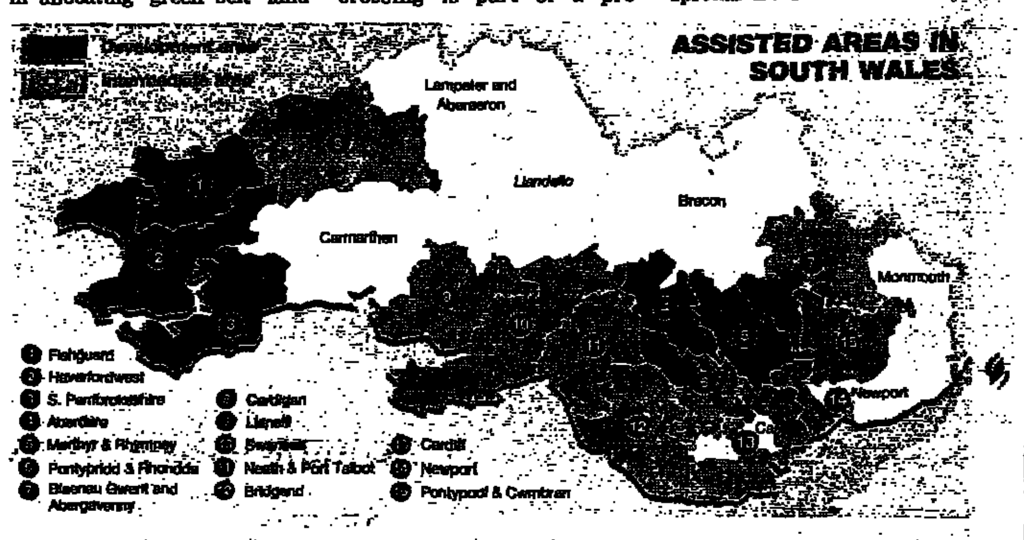
Rail links are also being improved. A railfreight terminal is planned for Wentloog Corporate Park, to the east of Cardiff.

Cardiff International Airport is earmarked for expansion in the ownership of TBI, the property investment company. Property agents hope that Cardiff, which dominates the Welsh office market in terms of size, will start to rival Bristol as a favoured relocation destination for UK companies.

The Cardiff Bay development provides a show-case, with sites available for headquarters buildings. Cardiff city centre also has new office space for occupation, such as Helical Bar's Kingsway development.

New roads, such as the new Pentwyn Link road with the M4 to the north of the city, have also opened up land for out-of-town business park development.

The Land Authority for Wales is involved in a number of smaller regeneration projects further west – including Carmarthen and Port Talbot town centres – which Mr Ryan believes will receive a long-term boost from the second crossing as development spreads from the east.



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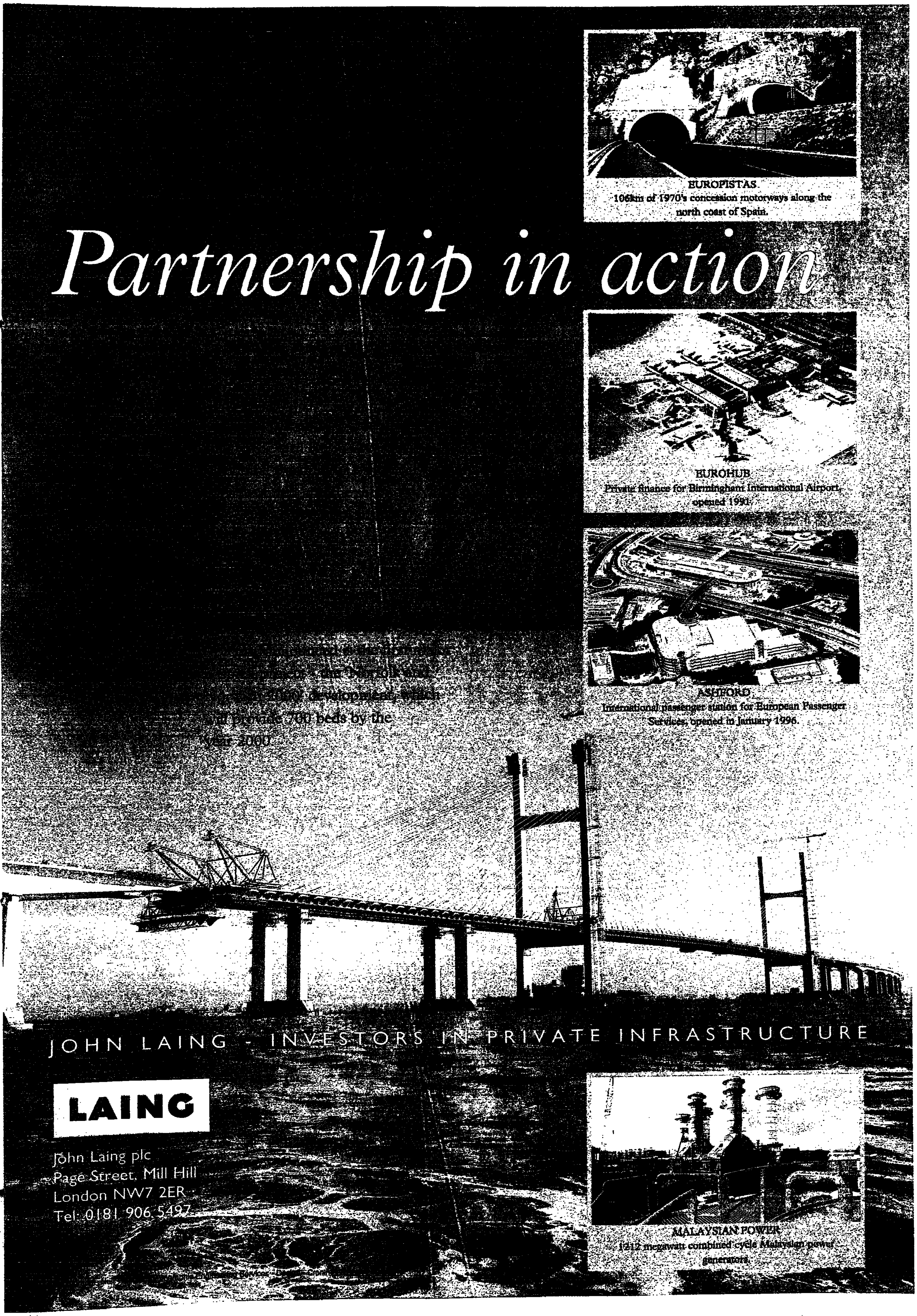


■ **TOURISM:** by Rhys David

Battle royal between two proud cities

The area's two main cities are set to intensify their competition for visitors

For two cities so close to each other – and now even closer as a result of the opening of the second Severn crossing – Cardiff and Bristol share few characteristics.

Cardiff was an important Roman fort, and later a medieval stronghold, with a fine 12th century Norman keep in the middle of its now largely Victorian castle. But by the time Bristol had risen to prominence as England's second city through its trade with the New World importing tobacco and other goods, Cardiff had sunk into obscurity, only reviving, to displace Merthyr Tydfil as Wales's biggest town in the 19th century, as a result of the explosive growth of coal exports.

Yet, rivalry has always existed between the two which seems set to intensify as both battle to win wider influence outside their immediate hinterlands.

One area where the two meet head on is tourism, which with the decline of other more traditional industries has become an important source of jobs and wealth. Here, Bristol has long had a variety of traditional venues, many of them popular with visitors from south Wales, such as the zoo, Harvey's wine cellars and ss Great Britain.

Yet Cardiff, by most measures, has stolen a march in recent years on its somewhat larger English rival, by winning a high place in the top 10 British cities both as a retail centre and as a conference and exhibition venue.

Somewhat to the aggravation of its regional rivals, Cardiff's investment in new city centre shopping precincts has brought in visitors from as far afield as Torquay and Birmingham not to mention nearer destinations on both sides of the Severn Estuary.

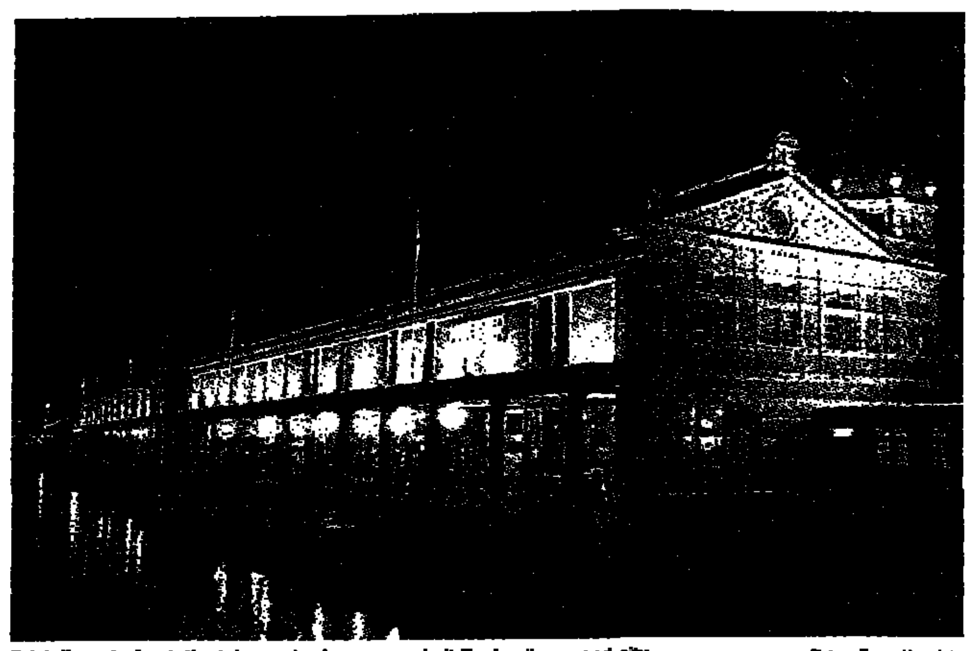
The National Union of Teachers conference, one of the UK's biggest such events, visited Cardiff at Easter for the first time since 1891, filling hotels and just as importantly, according to Norma Jarboe, chief executive of Cardiff Marketing, blazing the city's name across newspaper headlines and television and radio bulletins.

St. David's Hall and the Cardiff International Arena between them have also helped to give Cardiff a strong profile as a cultural and sporting venue, hosting events as diverse as the Cardiff Singer of the Year, the Welsh Proms, championship boxing, and rock concerts. And with the flexibility they can offer, the city has ambitions one day to host the CBI or one of the big party political conferences.

Yet, there are signs that Bristol is beginning to stir in these areas, too. City centre retailing has been given a boost by the decision of Bentalls of Kingston upon Thames to invest £30m in refurbishing a city centre store vacated by the John Lewis group when it moved to Cribb's Causeway, the out of town shopping centre north of the city.

A long period of frosty relations between public and private sectors has come to an end with the creation of the Bristol Forum, bringing together business, hotels, retailers, the arts, local authorities and various other bodies.

One of the first fruits of this has been Bristol 2000, a five year programme aimed at making Bristol one of the main cities for celebrating the millennium, through the creation of a number of new attractions in its harbourside area. An application has been submitted for a total of £83m towards a £150m scheme, with much of the remaining funds already promised from local sources.



Bristol's waterfront: the tobacco trade once made it England's second city — Picture: Trevor Humphries

New facilities are confidently expected to attract at least 500,000 visitors a year. They would include a centre for the performing arts, which could also double up as a conference venue, a science world hands-on discovery centre, not unlike, but possibly bigger than, Cardiff's brand new Techniquest, and Wildscreen World which would build on Bristol's international reputation as a centre for natural history film making. This would contain an electronic zoo, a large format cinema for showing natural history films, a museum of wildlife photography, and an international environmental record archive.

Developers are also showing interest in building a conference venue on a 20 acre former Post Office site adjoining Brunel's historic Temple Meads station.

When built these new attractions could help to boost substantially the estimated £400m income Bristol derives from (mainly business) visitors at present, increasing the number of visitor dependent jobs from the present 20,000.

Bristol is also hoping to win designation as a Green Globe city and to use this status to attract upmarket tourists from areas such as the Netherlands and Germany where care of the environment is prized. Under the World Tourism and Travel Council backed scheme, green globe cities are chosen for their commitment to environmentally sensitive tourism projects. "In Bristol one small example of this is the high proportion of visitors – around 11 per cent – who arrive not by car but by train," says John Hallett, Bristol's head of tourism and marketing.

Yet compared with Cardiff, Bristol does have the drawback of being not one city with a single identifiable heart but a series of neighbourhoods, at present poorly linked with each other. This is a problem now being addressed by a new transport and promotional strategy, aimed at creating the ambience of a tourist city rather than simply a busy commercial centre.

The mechanisms to be used will include greater pedestrianisation, better use of street furniture, floral displays, and signposting to guide people around designated quarters, such as the Old City, Broadmead, and Clifton village. Transport provision is also being looked at, including bendybuses and light rail.

> Cardiff will host the 1999 Rugby world cup in a new stadium

Yet, as Bristol brings its new facilities on stream, Cardiff will be completing its own tourism-generating projects, notably the £106m new national rugby stadium which will host the final of the 1999 Rugby World Cup. The 75,000 capacity all weather stadium, to which the Millennium Commission will contribute £46m, will have a retractable roof and be available for non-sporting events such as concerts. Directly and indirectly it is expected to lead to 1,600 new jobs and provide an injection into the local economy of £36m.

Other developments being discussed include further pedestrianisation of the western part of the city's compact centre to consolidate its position as the UK's fourth or fifth best performing retail centre.

The stadium aside, however, the most important investment in new visitor facilities is taking place in what is now termed Cardiff Bay, the former dockland area south of the city centre.

A new five star and a new family hotel are among a number of hotel developments and refurbishments currently going ahead in the bay, and other new permanent features will include an attraction based on Roald Dahl (a Cardiff native), and a big new multisports facility. A revised music theatre project is also being put forward to replace the failed opera house bid.

Yet while the big investment seems mainly to be going into Cardiff and Bristol, both of which can expect to attract more visitors from both sides of the bridge, other parts of both regions will also benefit from the improved accessibility and reduced travelling times at peak periods which the new crossing will provide.

The Oakwood leisure park in west Wales is, for example, investing a total of £20m in new facilities, including Britain's biggest wooden roller coaster. It aims to attract people within a three hour drive, including many from the south east, south west and English Midlands. In a few years, Wales will also have courtesy, of the Millennium Fund, its own national botanical gardens at Middleton Hall near Llandeilo in Carmarthenshire.

Nearer the bridge, a £20m expansion is planned at the Celtic Manor Hotel outside Newport, owned by the founder of the highly successful Canadian telecommunications company, Newbridge Networks. The plans, which will take investment in the site to more than £70m, involve new bedrooms, a conference and banqueting centre and a third championship golf course.

With tourism spending likely to continue to grow strongly both sides seem likely to benefit, therefore, drawing in visitors from each other's hinterland and from a wider area.

There also remains the prospect of widening the limited co-operation which currently exists between the two sides in order to promote the region as a whole to foreign visitors.

Home is a Welsh-Norman castle

The closest tourist attraction on the Welsh side of the new Severn crossing is Penhow castle, the first fortress with a stone keep to be built by the advancing Normans in 1070.

It proudly claims to be Wales's oldest inhabited castle. Yet, for owner Stephen Weeks, who acquired it in 1973 and has since spent a small fortune restoring its rooms, its very proximity to the crossing has presented a problem. Whereas the first bridge delivered visitors from England on to a stretch of the A48 road eight miles away at Chepstow, the new crossing will sweep past his property taking them straight on to Newport.

Weeks, who is planning this year to bring the castle's dungeons back into operation following last year's redecoration of the 17th century dining room, hopes the problem can partly be solved by better signposting but if necessary he will send a free map to anyone who calls him on (0)1633 400800.

Visitors, who include a number of school parties, currently come mainly from a radius of 30 miles or so around Penhow, but special evening events have drawn visitors from as far as London. Through a scheme called Mansions and Manors, Penhow has also developed a niche in accommodating US visitors, keen to say they have spent a night in a real castle.

■ **CARDIFF BAY DEVELOPMENT:** by Rhys David

Timing is perfect

The new bridge could not have opened at a better time for developers at Cardiff docks

For Cardiff Bay, the ambitious Government-funded scheme to revitalise the city's Victorian docks area, the opening of the second Severn crossing could hardly have come at a better time.

For the opening of the new link coincides broadly with the completion of the final stretches of highway joining the bay both east and west with the M4 London-south Wales motorway.

Visitors to Cardiff – the bay authorities expect 1.5m this year and 2m by 2000 – will in future be directed along this route, making a hitherto cut-off part of the city its shop window.

They will approach the city by skirting the Severn estuary and the vast expanse of mudflats which by completion date in 1998 will be contained within a one kilometre long £191m barrage, before proceeding along a new boulevard into the city centre.

On either side they will see an area now partly transformed – brave new buildings, such as the headquarters of credit insurance group NCM, alongside Victorian edifices waiting to be refurbished, housing and hotels next to old docks, and a large acreage of land still awaiting new users.

Dutch-owned NCM, whose prow-shaped building projecting into the bay has impressed architectural critics, has been one of the bay's big successes. Others are Ocean Technical Glass, a capital and labour intensive German-Japanese joint venture producing cathode ray glass, various leisure attractions such as the new Techniquest hands-on science discovery centre, and sensitive restorations of a former bonded warehouse, an old HM customs office, and a former Norwegian seamen's church, now converted into an arts centre.

According to Michael Boyce, chief executive of the Cardiff Bay Development Corporation, public funding of the bay which started in 1987 will by the end of this year have helped to lever up £800m in private sector investment and create 6,000 jobs, with an ultimate target of 30,000 drawn from a wide sub-region around Cardiff, including its adjoining valleys.

There have been some disappointments as well, however, notably the failure to secure Millennium funding for a new home for Welsh National Opera, and the runner-up position (behind Lanarkshire) in the battle for the huge Chung Hwa cathode ray television tube and computer monitor plant.

NCM, the Dutch-owned credit insurer, which opened last year

Financial services, another hoped-for source of inward investment, have also been somewhat slow to come. Arrivals such as NCM, and Axa Equity and Law, which occupies a site between the bay and the city centre, will shortly be joined by Legal and General which is setting up a call centre in Cardiff, employing 400 people.

The city, a back office centre for Chemical Bank, has lost out to Bournemouth, however, following the merger with Chase Manhattan and subsequent rationalisation of services. New office space will, however, continue to target this sector, including Scott Harbour, a £15m new five-building scheme by Grosvenor Waterside, property arm of ABP, the port's owner.

Yet, for Michael Boyce, every scheme brought in before the flooding of the mudflats behind the barrage is almost a bonus. "NCM took their decision earlier than everyone else because they bought into the vision of a superb maritime setting. Others will come when the barrage is completed," he says.

Ocean Technical Glass is regarded as pure gold because of the type of jobs it will bring – many of them physical and highly suitable for men – and the long term investment commitment involved in this high technology £200m project.

The presence of a big supplier is also expected to help to anchor the large number of television related jobs in other parts of south Wales, where Matsushita and Sony have been among the biggest investors over the past 20 years.

The visitors that the bay hopes to attract are also seen as vital to its future development as they are expected to include some who will want to come back as investors. Part of the marketing effort, therefore, has involved creating a range of activities, many of them water based, throughout the year, in order to attract people from a wide area of southern Britain.

Among these will be a £30m leisure complex planned by Tarmac at the harbour entrance which will include a multiscreen cinema. A new satellite communications gateway, backed by a consortium of cable and other companies, has also recently been announced for the area. It is hoped this will attract modern industries requiring high speed and high density data and voice communications links.

Another vital trigger will be the new boulevard and light rail link which will join the bay area with the centre of Cardiff, replacing the once notorious Bute Street and the adjoining embankment along which existing rail services run.

Building has been delayed by a government requirement that the proposed scheme be put out for consideration under the private finance initiative. A number of consortia bringing together building and transport groups have now put in bids which are being evaluated, and it is still intended that the scheme be in operation by 1998. For the private sector the incentive will be the opportunity to develop land on either side of the road which will run in a 90 metre corridor down to the middle of the waterfront.

A vital piece in the bay jigsaw, which may still be needed to make sure the rest fits together to create the right overall picture, remains the opera house. Following the rejection by the Millennium Commission of the scheme put forward by the trust chaired by former Welsh secretary, Lord Crickhowell, a consensus has emerged that a broader scheme to create a performing arts complex, including a music theatre and museum facilities, is needed.

A revised bid is likely to be put forward soon by a group led by the CBDC, and if successful an operating company will then be formed to build and run the new institution. It offers the prospect that something will in the end be built, and that its purpose will be perceived as being less elitist than the Opera House. Indeed, the stress is likely to be on the limited number of weeks it will be used to cater for Welsh National Opera and the opportunity it will offer to bring *Phantom of the Opera*, *Les Misérables* and other big shows to Cardiff.

It may thus avoid the controversy of what was seen before as a toffs' scheme. Whether, as was the original intention, it will create a building which would be ranked alongside Sydney Opera House is another matter.

■ **A DIRECTORY OF USEFUL BUSINESS CONTACTS**

Who's who in the west

THE opening of the second Severn bridge coincides with the reorganisation of local authorities on both sides of the Severn estuary.

In Wales, 22 unitary councils took over on April 1 from the former two-tier structure of county and district councils. In the west of England, Avon county council was abolished on the same date and replaced by four unitary councils, including one for Bristol. However, Gloucestershire and Somerset county councils have been retained.

These are the contact names at the new and existing local authorities and other agencies involved in economic development and attracting investment:

SOUTH AND MID WALES COUNCILS

■ **Blaenau Gwent.** Peter Slater, director of economic development, Business Advisory Centre, Enterprise House, Rassau Industrial Estate, Ebbw Vale, Gwent NP3 5SD. Tel. 01495 306770

■ **Bridgend.** Malcolm Thomas, director of environment and planning services, Angel Street, Bridgend, Mid Glamorgan CF31 1LX. 01656 643643

■ **Caerphilly.** Chris Burns, head of economic development, Nelson Road, Ystrad Mynach, Hengoed CF82 7EP. 01443 815588

■ **Cardiff.** Gregory Byrne, director of economic development, County Hall, Atlantic Wharf, Cardiff CF1 5UW. 01222 872000

■ **Carmarthenshire.** Gerald Campbell-Phillips, director of economic development, Town Hall, Llanelli SA15 3AH. 01554 742257

■ **Ceredigion.** Bronwen Morgan, director of corporate services, Town Hall, Aberystwyth SY23 2EB. 01970 617911

■ **Swansea.** Mel Edwards, director of economic development. County Hall, Swansea SA1 3SN. 01792 636000

■ **Merthyr Tydfil.** Geoff Peters, economic development officer, Castle Street, Merthyr Tydfil CF47 8AN. 01685 723201

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■ **Pembrokeshire.** Kefin Wakefield, head of economic development, Pier House, Pier Road, Pembroke Dock SA72 6TR. 01646 684914

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■ **Torfaen.** Andrew Fretter, director of development, County Hall, Croesyceiliog, Cwmbran, Torfaen NP4 6YB. 01633 832683

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■ **Welsh Development Agency.** Barry Hartop, chief executive, Principality House, The Friary, Cardiff CF1 4AA. 0345-775577

■ **Development Board for Rural Wales.** John Taylor, chief executive, Ladywell House, Newtown, Powys SY16 1JB. 01686 626965

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■ **Bath and North East Somerset.** Robert Mimmack, director of development, Trimbridge House, Trim Street, Bath BA1 2DP Tel. 01225 477000

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■ **Gloucester.** Clare Herbert, head of economic development, Herbert Warehouse, The Docks, Gloucester GL1 2EQ. 01452 396848

■ **Gloucestershire.** Tony Burley, head of economic development, Shire Hall, Westgate Street, Gloucester GL1 2TG. 01452 425000

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■ **Sedgemoor.** Mike French, principal devt. officer, Bridgwater House, Bridgwater TA6 3AR. 01278 424391

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■ **South Gloucestershire.** Kevin Chidgey, economic development officer, Castle Street, Thornbury BS12 1HF. 01454 863851

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■ **West Somerset.** Bruce Lang, economic development officer, Council Offices, 20 Fore Street, Williton TA4 4QA. 01984 632291

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■ **Somerset Economic Partnership.** Mike French, Bridgwater House, Kings Square, Bridgwater, Somerset TA6 3AR. 01278 424391

■ **West of England Development Agency.** Peter Connor, chief executive, 5 Greenways Business Park, Bellinger Close, Chippenham, Wilts SN15 1BN. 01249-461010

■ **Western Development Partnership.** Martin Willey, chief executive, PO Box 606, Bristol BS99 5RE. 0117 9298884

■ **BRISTOL AND CARDIFF:** by Roland Adburgham

Twin poles of regional expansion

The area's two leading cities will both complement and compete with each other

Travel time between the two regional capitals of Cardiff in Wales and Bristol in the west of England will be slightly shortened by the new bridge. It is less certain they will be brought closer together in spirit.

Together, the cities, only 45 miles apart, could provide the twin nuclei for a more robust economic region in European terms. But they have long been rivals and, instead, the bridge could increase their competition for inward investment, shoppers, and tourism and leisure spending.

Bristol is the larger city with a population of 400,000 compared with Cardiff's 300,000. Both, in many respects, are thriving and, encouraged by the general impetus behind regionalism, have ambitions to play a larger part on the European stage. But whereas Cardiff has firmly established itself as the capital of Wales, recognition of Bristol as the regional capital of the west of England is much more ambivalent. An example was the palaver last year over where the new West of England Development Agency should be based. Bristol should have been the obvious choice. The agency's role is to win foreign investment for the region's five counties. Bristol, due to its maritime trading past, has an international name. Harveys Bristol Cream sherry is a world brand. The US has no fewer than four towns called Bristol.

Yet the agencies' sponsors in the five counties could not agree to capitalise upon this. Instead, it was feared Bristol and the economic development agency already based there, the Western Development Partnership, would dominate and snaffle inward investment projects.

A preferred solution was Bath, with an equally famous name, but suitable premises could not be found. Eventually, a compromise location was found: the obscure Wiltshire town of Chippenham.

If this signifies the suspicion of Bristol, and the reluctance to allow it a leadership role, it is partly the city's fault. It is often regarded as introspective and being unconcerned about the wider region. To some extent, it is a question of role. Although the Government Office for the South West is based there, that hardly compares with a department of state, which is what Cardiff has with the Welsh Office.

Both cities, though, have reasons to respect each other. The Welsh capital has a more cohesive shopping centre of malls and arcades (and cheaper car parking). It has fine cultural assets such as the National Museum of Wales and Welsh National Opera, even if the opera house project turned into an embarrassing fiasco. (Bristolians were rather amused by the saga.)

Bristol has no stadium with the aura of Cardiff Arms Park, let alone its replacement to be built to host the rugby world cup in 1999. Nor does it have anything to compare with Cardiff International Arena, which today opens a three-day European business fair.

Cardiff Bay development corporation is promoting spectacular regeneration, unlike the Bristol development corporation, which was wound up in December with only limited achievements.

On the other hand, Bristol's domestic architecture, especially the Regency, Georgian and Victorian buildings of Clifton, is much more distinguished. Its waterfront is at last becoming appreciated as a magnificent asset. It has a sense of history – epitomised by its Society of Merchant Venturers, incorporated by royal charter in 1552 – that Cardiff cannot match.

One common strength is that both are the undisputed economic hub of their region. Aerospace is important: near to Cardiff are British Airways' maintenance base and General Electric's engine overhaul plant; British Aerospace and Rolls-Royce have manufacturing plants in north Bristol. There are vibrant media industries – as witnessed by the three Oscars of Bristol's Aardman Animations.

While the west of England has never been able to offer the grants packages available around Cardiff, which also has lower rental and labour costs, it has probably a more skilled workforce. Cardiff has the University of Wales, but Bristol University is one of the UK's leading academic institutions and, as well, there are the universities of the West of England and Bath.

Although the two regions can legitimately proclaim their quality of life, the west of England, with its schools and housing, may be more attractive to senior executives and their families. Bath, a dozen miles from Bristol, is arguably the finest provincial city in England. Perhaps in consequence, Bristol has been more successful in attracting high-tech industry and the headquarter functions of financial services companies. Hewlett Packard of the US has its European base; Lloyds retail bank, NatWest Life, Sun Life and Bristol & West Building Society are among the headquarters.

Cardiff, though, has its own active community in financial and business services. This month, Coutts, the upmarket private bank, opened an office in the city (it is already established in Bristol.)

Another acknowledgement of the Welsh capital's growing stature has come this year with the decision of the Bank of England to establish a regional agency to monitor business conditions – rather than, as hitherto, covering south Wales from Bristol.

A study published last November by Plymouth Business School, in its South West Economic Review, analysed the cities' relative success. "The total picture suggests that Cardiff is becoming much more buoyant: a trend which is very likely to continue given the boost of the second Severn crossing and, if successful, the massive redevelopment of Cardiff Bay," it said. "There is, therefore, some concern in Bristol about the increased attractiveness of the Welsh capital."

The study commented: "Bristol is now recognising that Cardiff is a serious threat and that it must develop some strategic vision of its own."

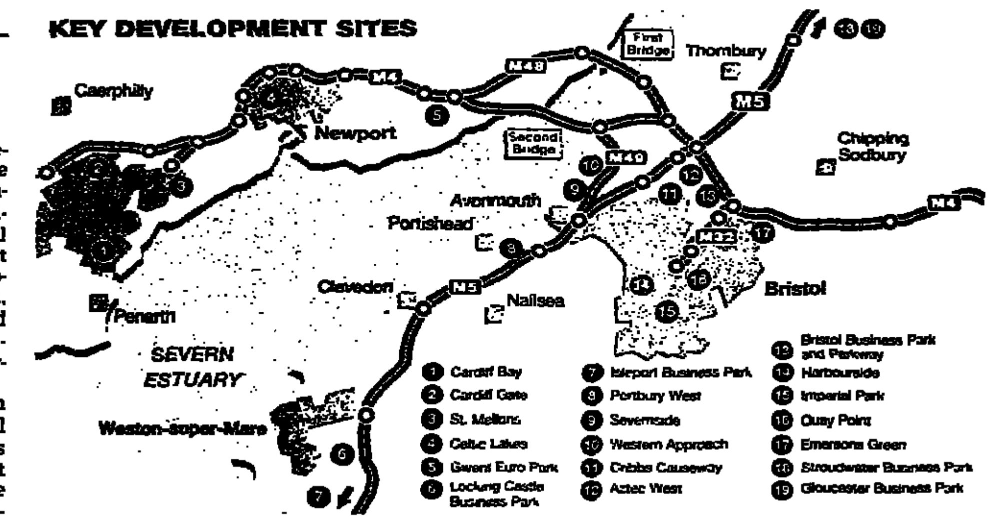
This recognition is apparent in a recent willingness to narrow what has been a self-destructive divide between the public and private sectors – in sharp contrast to the "Team Wales" approach. Cutbacks in the city's financial services sector, the move of Sun Life's headquarters out of the city centre (principally because of traffic congestion and parking difficulties), the imminent opening of the out-of-town Cribbs Causeway shopping centre, have helped to concentrate minds.

Bristol Chamber of Commerce & Initiative, with its chief executive Mr John Savage, has taken the lead in encouraging partnerships between the private sector and the city council. Broadmead, the outdated shopping centre, is at last being improved. The Harbourside regeneration of the waterfront, with a centre for the performing arts, looks as though it will come to fruition.

Tourism is being encouraged by events such as next week's international festival of the sea. A project for a rapid transit system has been resurrected and park-and-ride schemes have been introduced for shoppers and commuters.

On April 1, the Labour-led councils in Cardiff and Bristol reverted to unitary status, regaining powers lost under the previous two-tier structure of local government. While both cities would like to have seen the government widen their boundaries to take in the greater urban area, it does present an opportunity for positive political leadership to capitalise upon their considerable strengths. Even if the cities do not become kindred spirits, they are each well placed to move up the European league table.

KEY DEVELOPMENT SITES



■ **CIVIL AVIATION:** by Roland Adburgham

Bristolians fume at airport ban

There is deep disappointment at John Gummer's refusal to back a new civil airport

In the Bristol region, the shock waves persist. Among the business community, there was incredulity at the government's decision in March to reject a plan by British Aerospace to develop its airfield at Filton, north Bristol, into a commercial airport.

When the Confederation of British Industry in south-west England recently surveyed members to draw up a business agenda for the region, no fewer than 79 per cent identified air links as the main weakness – a higher percentage than for any other perceived drawback.

Bristol's existing airport at Lulsgate, south of the city, is a success in its own terms. It carried a record 1.5m passengers in the year to end-March with record pre-tax profits of £4.5m in 1994-95. But it has a limited range of scheduled services, sometimes suffers from flight diversions because of weather conditions, and has poor road access and no railway.

The CBI's report said an estimated 2.8m people a year travelled by road from the south-west to use air services from London. While the region's relative closeness to Heathrow airport is an advantage, motorway congestion is likely to become an increasing deterrent. The CBI concluded: "The business and economic development communities judge that the south-west's competitiveness is being held back by the lack of an international regional airport of the calibre of Manchester airport."

Filton, the CBI said, was the preferred location for an international airport, "gaining three times more support overall than any other suggestion". BAe's plan (at least initially) was on a modest scale for a small business airport. But the logic seemed so persuasive – it is an existing airfield with a long runway, close to the M4 and M5 motorways and mainline railway – it was widely assumed it would be approved after a public inquiry last year.

In giving the thumbs-down, Mr John Gummer, environment secretary, agreed there would be "wider benefits for the local economy in terms of enhanced competitiveness and employment prospects". But he considered there was no overriding justification for Filton which outweighed the interests of local residents, who had protested vociferously. In 1975, a previous environment secretary had allowed thousands of homes to be built near the airfield – even though it had been in non-commercial use since the early days of aviation.

Mr St John Hartnell, a leading Bristolian and senior partner of Hartnell Taylor Cook, commercial property surveyors, did not mince his words. Mr Gummer's decision, he said, was "stupid beyond all credibility". BAe itself announced this month it would challenge the decision in the high court.

Mr Gummer did say the Government Office for the South West would commission a study of future demand for air travel and how that could be met. Two other tentative proposals exist for an international airport. One, called Severnside International, would be on reclaimed estuary land near Newport. But even if it could find the funding, it would face immense environmental objections. The other, UK One, put forward by European Airports Consortium, would be sited close to the new bridge. It too faces huge obstacles to raising development funds and in persuading the landowners to support it.

If the rejection of Filton airport is upheld by the high court, the emphasis will be on improving Bristol's existing airport. Last year, Mr Gummer gave consent for a new terminal to raise capacity to 2m passengers a year by the year 2000. Scheduled traffic is growing faster than charter and accounts for more than a third of passengers.

Its new terminal will cost £17m as part of a five-year £30m development programme. The airport, owned by the city council, is seeking private capital for much of the improvements, to include extending the runway to take larger aircraft and in poorer weather. To improve access, Mr Peter Clayson, the airport's managing director, calls for the completion of the Bristol ring road to link the M4 and M5 motorways and to connect with the airport.

Assuming the Filton decision stands, that will also be welcomed by Cardiff International Airport which, although it is west of Cardiff, is seeking to extend its catchment area into England. Like Bristol, the airport has a limited range of scheduled services and needs better access. As in the south-west, a CBI Wales survey has shown a high proportion of business people – 64 per cent of respondents – consider air links to be a weakness.

Upgrading, as at Lulsgate, is under way. Last year, the airport was privatised and sold for over £37m to TBI, the Cardiff and London-based property and development group. It too is seeking more business traffic (which accounts for a quarter of its annual 1.1m passengers) and intends to spend £20m to the year 2000 on improvements.

Last November, a new £3m arrivals lounge was opened. The departures lounge is being expanded and the airport plans to handle 2.5m passengers by the year 2004.

By then, it will be apparent whether south Wales and the west of England have adequate air services – or, as many fear, the regions have been left in the slipstream of those with better regional airports.

PROPERTY IN BRISTOL: by Simon London

A brighter vision

Bristol sees more scope to expand its portfolio of land suitable for new development

If the second Severn Crossing promises to improve road communications to south Wales, Bristol hopes to gain in terms of developable land.

Years of expansion left the city with a shortage of suitable development sites, especially on its northern edge close to the M4 motorway.

Key sites have been filled by big developments such as the Ministry of Defence's new procurement headquarters at Abbey Wood and the Cribbs Causeway regional shopping centre.

Suburban housing or green belt meant that many other areas are out of bounds for commercial developers.

The second crossing should help alleviate this shortage by opening up the area between north Bristol and the Severn estuary for development.

The area has been earmarked for commercial development since the 1950s, when Imperial Chemical Industries acquired 2,000 acres for a planned petrochemicals plant.

But poor road communications, based on the twisting A403, meant that large-scale development never took place. While the southern end of the Severnside site is a jumble of light and heavy industry, the northern end was left largely untouched.

The new M49 motorway, connecting the new crossing with the M5, cuts through the heart of the site. A motorway junction in the middle of ICI's land holding – albeit not in the position the company had hoped for – promises to open up Severnside as a warehousing and distribution centre.

"The second crossing opens up a huge area of land where development is not controversial," said Mr Ned Cussen of King Sturge, the chartered surveyors.

ICI has the biggest landholding in the area. Its new masterplan for the site envisages a 200 acre distribution park, a sciences park, housing and manufacturing space.

The company has started work on landscaping and link roads which will connect distribution sites to the motorway and thence to the rest of the UK.

ICI's fertilizer factory also boasts a railway siding which could be expanded to provide rail freight facilities for potential tenants.

The first warehouse on the site, which will be occupied by Great Mills, the DIY retailer, is under construction. Mr Andrew Sturt, chief executive of ICI Estates, estimated that the site could eventually create 10,000 to 15,000 jobs.

However, ICI does not have a monopoly on developable land in the area. At the southern end of Severnside, RTZ and Amec Developments are promoting a 60-acre industrial and distribution site known as Severn Gate.

English Partnerships, the government's regeneration agency, provided a £3.5m grant to help with infrastructure works which were completed last year.

Further south again, close to Royal Portbury dock, Bryant Properties and the Bristol Port Company have plans for a 100 acre manufacturing and distribution park next to junction 19 of the M5.

Indeed, most of the motorway junctions to the south of Bristol are sprouting commercial sites which developers hope will receive a boost from the opening of the Severn Crossing which will increase the freight capacity of the region.

None of these sites can offer the same incentives in terms of government grant aid which are available on the Welsh side of the Severn. This is a bone of contention for landowners on the English side.

Even so, English Partnerships views Severnside as one of the few sites in the west of England capable of attracting an overseas manufacturer making a substantial inward investment into the UK.

Bristol's most striking success in recent years has been to attract service-sector companies relocating from other parts of the UK. The city consistently comes out top in surveys of favoured relocation destinations.

Artist's impression of Bristol's Harbourside redevelopment plan for which Millennium Funding is being sought

The MoD's decision to relocate to Abbey Wood was the biggest and most high profile of these moves. But private sector companies such as Sun Life, the insurer, which is about to move 2,500 staff into a new HQ near Abbey Wood, have also made their home in the city.

North Bristol was established as a business location by Aztec West, the business park which was set up in the early 1980s by ESN, the pension fund manager, and is now owned by Arlington.

Other business parks have followed. At Bristol Business Park, where DuPont has an 80,000 sq ft building, Bristol & England Properties and BZW Property Investment Management are building four speculative office buildings. The first was let this year to National Westminster Bank for its group property HQ.

At Emerson's Green, adjacent to junction 19 of the M4, there are plans for large mixed-use development including offices and warehousing space.

Whether these business park schemes will benefit from the opening of the second Severn Crossing is a moot point. Judging by its performance over the last decade, though, the city is already one of the UK's most attractive office locations.

NEWPORT AND GWENT: by Roland Adburgham

It helps to be close to the action

Newport, only 12 miles from the crossing, sees new opportunities after losing a battle over a barrage on the River Usk

If one Welsh town, above all, can expect to benefit from the second Severn crossing, it is Newport. A town with aspirations to be called a city – it has 130,000 inhabitants – it is only a dozen miles from the new bridge.

The bridge's completion will come as a fortunate fillip to Newport because, last autumn, a long-gestated regeneration scheme to build a barrage across the tidal river Usk was aborted.

Newport council, together with Gwent county council, had promoted the barrage to provide a road crossing over the river and impound water to cover low-tide mudflats. The barrage was intended to be the catalyst for a predicted £400m of commercial, industrial and housing development in semi-derelict docklands, close to the town centre.

The Usk, however, is one of the finest rivers in Wales and fishermen and conservationists were outraged. After a public inquiry, Mr William Hague, the Welsh secretary, rejected the scheme, saying it threatened "irreversible and harmful effects". His decision was welcomed as a "famous victory" by the Council for the Protection of Rural Wales while Mr Harry Jones, leader of Newport council, declared: "The rejection is a hammer blow – but Newport will not lie down."

Mr Hague did say he would be sympathetic to other plans to regenerate Newport's waterfront, and fresh schemes are being evolved to ensure the town does not lie down.

The first is to build a bridge – where the barrage would have been – to improve communications within the town, and which could link with a proposed M4 motorway relief road to the south. That road, though, has also run into fierce opposition because of its impact on sites of special scientific interest within the Gwent Levels.

In this case, Mr Hague selected a route last July with construction work envisaged to start in the year 2000. Defending his decision, he warned that, with the opening of the second Severn bridge, "we have to plan now to ensure that the M4 corridor across south Wales does not become so badly congested that the economy of the region is jeopardised".

To ensure that Newport does not fall by the wayside, the town's new unitary council, which last month took over the powers previously held by Gwent county council, has another scheme afoot. Mr Peter Rees, Newport's project manager for inward investment, comments: "We don't want to lose the potential energy generated by the barrage."

The council is in discussions with the Welsh Office and the Welsh Development Agency about its intention to set up a development board, with representatives drawn from the public and private sectors. It envisages using up to £20m from capital reserves (which had been earmarked for the barrage) and to seek government and European funding to create an overall budget of up to £40m for a five-year programme to regenerate the old docklands.

It was the docks, exporting coal, steel and tinplate, which were responsible for the town's Victorian growth and made Newport the third largest conurbation in Wales, after Cardiff and Swansea. Today, the port itself, owned by Associated British Ports, is used for general cargo – more than 1bn bananas come through it every year – and ABP has invested £5m in the last two years to attract new trades.

British Steel has invested £350m in its Llanwern works near Newport during the last decade. Although the workforce is far smaller than it once was, the plant remains the largest local employer and the workforce has stabilised at about 3,500. But traditional industries, while important, are not sufficient. Mr Roger Davies, Newport's head of economic development and regeneration, says: "As a town we are now largely dependent on inward investment, either by being directly created or through expansions by those who are already here."

Those already there include the Patent Office; TSB with a telebanking service; a call centre for Dun & Bradstreet, the company research analysts; Bisley Office Equipment; Newbridge Networks; and Electrotech, a maker of microchip machinery which was wooed from the other side of the Severn estuary.

At Gwent Euro Park at nearby Magor, close to the new bridge, Tesco has recruited more than 700 staff for a depot it describes as "the largest grocery warehouse in the UK". It supplies 70 of its stores in the west of England as well as Wales.

Gwent Euro Park had also hoped to be the site for a European rail freight terminal but, last month, the Welsh secretary said a rival site at Wentloog, near Cardiff, was preferred.

If that was a setback to Newport's ambitions, there have been other recent successes. Yesterday, the local Gwent College of Higher Education raised its status by being inaugurated as part of the University of Wales. On the industrial front, it was announced in March that a £230m semiconductor plant would be built for Newport Wafer-Fab, the subsidiary of QPL International Holdings of Hong Kong.

The facility, described as the most modern of its kind in Europe, is expected to create 760 jobs. QPL's investment means that, since the council launched an economic development strategy in 1987, there has been £1bn of private investment with nearly 12,000 jobs created, well ahead of the original targets. This has helped to reduce unemployment in the travel to work area to 8.4 per cent, below the Welsh average.

One consequence of an improving economy is that the government in 1993 reduced the boundaries of Newport's intermediate assisted area, where companies can qualify for grants. But European Objective 2 status, for areas undergoing industrial change, has been retained. Mr Davies argues that the town is still having to cope with such structural change and inward investment continues to be vital. "Unless we attract more investment in an increasingly competitive market, we're not going to satisfy the employment needs."

Newport is conscious that most incoming companies have chosen to be close to the M4 motorway corridor, outside the town. The barrage was intended to be the prime means of improving the appearance, and of attracting investment, closer to the centre. Mr Davies says: "We've taken the view that unless we can make the centre of Newport more attractive, and improve the quality of life there, we will find it increasingly difficult to attract the investment we need."

One highly visible reminder of the town's industrial history is its transporter bridge, completed in 1906. This extraordinary structure carries vehicles high across the Usk on gondolas. It closed in 1985 but reopened last December after £3m of restoration.

The scruffy, deprived area around the bridge also needs a repair job – and if the proposed development board, and more indirectly the new Severn bridge, can help to achieve that, the town's citizens will be grateful.

هيكل من الاهرام

DEFENCE MINISTRY RELOCATION: by Bernard Gray

A comfortable way to save money

The MOD's procurement arm says its £273m move saves taxpayers' money

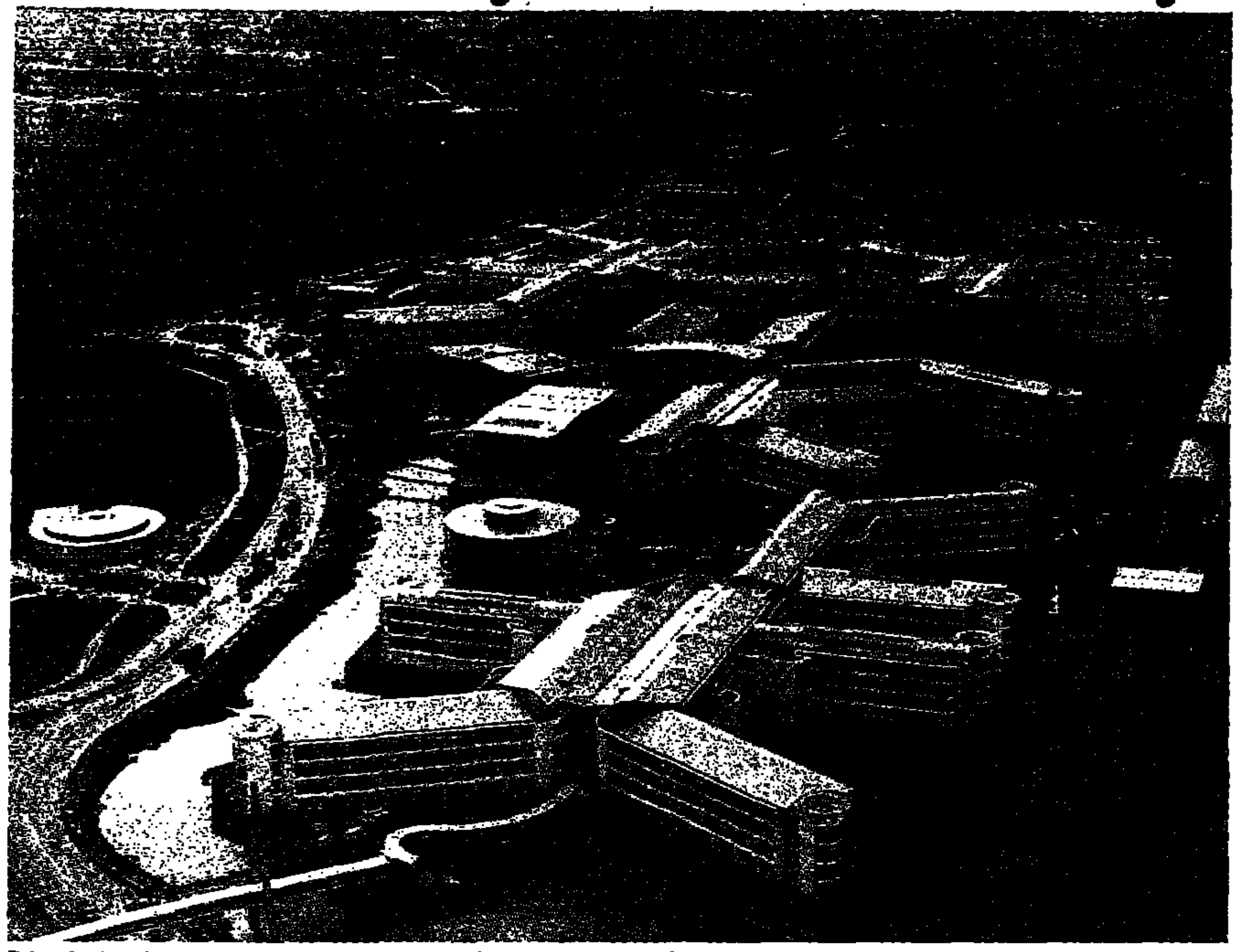
Abbey Wood, the controversial new home for the Ministry of Defence's procurement arm, is rapidly turning from a vast building site into a functioning office complex.

The site, located north-east of Bristol near the Parkway station, will have cost £273m to build by the time it is finally finished in the autumn. Moving around 4,000 Procurement Executive staff there will have cost a further £86m. Despite these costs the MoD is insisting the new development will save it money.

With the defence budget falling fast, and with a general reluctance by taxpayers to pour money into nice offices for civil servants, it is easy to see why the cost of building Abbey Wood has attracted criticism.

What produced most of the bad headlines, however, was the fact that Abbey Wood gives the Procurement Executive the kind of facilities that the taxpayers would kill for in their own workplaces.

The MoD argues that many of the refinements which are regarded as "gold-plating" at the Abbey Wood site are sensible ways for the ministry to save money in the long term.



Relocating in style: the new MOD procurement centre at Abbey Wood in north Bristol

Abbey Wood will house about 5,000 staff when it is finished in a carefully designed and pleasant office complex. Its design team has tried to learn from the mistakes of other large relocation projects, some in the Bristol area, to ensure the best possible working environment.

So while the team were determined to have an open plan office system to dig shy and retiring civil servants out of their lairs, they have spent money on good quality carpets for the open areas to dampen noise levels. The idea is that the carpets will wear better and allow people to concentrate without being distracted by their colleagues' conversations.

Everyone on the site is linked by personal computer network which, interestingly, is not the system the Procurement Executive itself bought for the rest of the MoD. The PE's system has proved cheaper and less troublesome.

Triple glazing is also standard. Not, apparently, to make sure that sleep is uninterrupted, but for energy saving and to produce a combination of blinds and windows which requires little maintainance.

Glass-topped atriums between buildings provide airy informal meeting spots, but are also said to cut down on the cost of exterior cladding required for the complex. More than 5,000 trees and 15,000 shrubs will have been planted in the grounds by the summer, but they too apparently cut costs by reducing grass-cutting requirements.

The large lake at one end of the site is, the PE says, required by the environmental agencies as a storm drain for the whole development and doubles as a defence barrier which reduces the amount of fencing needed around the compound.

The suspension bridge which links it with one of the two large car parks has been artistically approved.

For those who prefer to travel to work by train, the £3m dedicated railway station is now open, and once the staff arrive there a nursery is ready to receive up to 100 children aged under five.

Given the Club Med feel of the new headquarters, some Procurement Executive staff have surprisingly moaned about being moved from their dingy cubby holes in London. None, however, has yet refused to turn up for work at Abbey Wood.

Some 1,500 staff have been transferred to the site since the top brass arrived just before Christmas. The rest of the 4,000-odd professionals who are required to move by the MoD are expected by the autumn, and the PE is looking to recruit almost 1,000 mostly clerical staff locally.

PE executives say that the move has proved remarkably smooth, with very little unexpected trouble. Staff have crated up their work over a Thursday and Friday of one week, been moved during the weekend, and have unpacked in time to be reasonably operational by the end of the following Monday.

Those who have moved to buy houses in the area have found accommodation quite easily, according to those running the move. Despite the earnest hopes of local estate agents, house prices have not been ramped up by the influx of new buyers.

What remains to be seen is whether the taxpayer will really benefit from the operation. The MoD's own figures, which may be expected to highlight all the possible savings, say that the new site will save £113m a year, ignoring the costs of financing the development.

Whether that is really true remains to be seen, but given the amount of jealousy elsewhere, the Procurement Executive can be sure that others will keeping a careful watch on the scheme.

CRIBBS CAUSEWAY: by Roland Adburgham

The magnetic mall

After 11 years of planning, a huge shopping mall is going up a few miles from Bristol

It has been long heralded, but whether it is viewed with eager anticipation or trepidation depends upon one's point of view.

After 11 years of planning and opposition, construction finally began last October of one of Britain's largest regional shopping centres, Cribbs Causeway. Today, it is a colony of cranes, five miles north-west from the centre of Bristol, but by 1988 it will have become a magnet for shoppers on both sides of the estuary.

Because it is a greenfield out-of-town site, Cribbs Causeway may be one of the last of its kind. It was eventually approved in November 1991 by Mr Michael Heseltine, then environment secretary, after an appeal against an earlier rejection by his predecessor, Mr Nicholas Ridley.

Since then, the government has tightened its planning guidance against similar schemes. Mr John Gummer, the environment secretary, was in Bristol last month making an impassioned defence of town centres. "The future of Bristol, as of all our cities, depends on whether now we are determined to recover the sense of excitement of living and shopping in the centre – or to go on allowing the countryside to be no longer the countryside, and the town no longer the town," he said.

The US, he said, was a "ghastly example of what happens if towns are allowed to spread beyond sense". Did we want, he asked rhetorically, cities to be left to the "rootless, reckless and wreckers?" To meet the demand for housing and commercial development, he insisted: "The use of land that has been used is imperative, and the use of land that has not been used is increasingly unacceptable."

Mr Gummer did not mention his predecessor's part in allowing that to happen at Cribbs Causeway. Developed by Prudential Assurance, the UK's largest life company, and J T Baylis, a Bristol builder, it will have a shopping mall with 725,000 sq ft of space, plus a leisure centre and retail park with a superstore on a total site of 150 acres.

"The car has become the master, not the servant," Mr Gummer declaimed. In Cribbs Causeway's case, the car is its raison d'être, with free parking for 7,000 vehicles and another 1,000 spaces for the leisure centre. The developers are providing a slipway off the M5 motorway and other highway improvements at a cost of over £10m. The new bridge (in which Prudential has invested £25m) is just a few minutes' drive away.

> Cribbs was one of the last out of town malls approved before the government altered its policy

For shoppers, there is little doubt of the lure of Cribbs Causeway. The two-storey mall will be anchored by a 230,000 sq ft John Lewis department store – John Lewis is abandoning its existing store in Bristol's city centre – and a 145,000 sq ft Marks & Spencer. This month, the developers are starting to market the space for another 140 retailers, with a 900-seater food court plus restaurants.

"The demand is absolutely exceptional," says Mr Graham Maskell, Prudential's associate director in charge of the project. "I can't think of any shopping centre so sought-after. The value of the deals with John Lewis and Marks & Spencer are far in excess of anything achieved anywhere else in the country."

He puts the end-value of the shopping centre at £250m, plus another £60m for the leisure centre and retail park. "Cribbs Causeway is an exceptional location and is seen as something very special," he says.

The plans for the leisure complex include a 12-screen Warner Brothers cinema, a "leading-edge family entertainment centre" and restaurants. This is due to open in October next year, with the shopping centre in the following spring. Nearby, there is already a separately-owned retail warehouse park which is proving highly successful.

Prudential calculates that Cribbs Causeway is "within an hour's drive for almost 4m people". That range includes Bath, Cheltenham, Gloucester, Swindon, Taunton and Weston-super-Mare. On the Welsh side, there are Cardiff, Chepstow, Newport and valley towns.

While all of these could lose some trade, the most direct competition must be to central Bristol. One beneficial effect of Cribbs Causeway is its galvanising effect on the city, which has realised it must update its own postwar shopping centre, Broadmead.

The city council, the main freeholders, and the private sector have formed a company, Broadmead Board, to revitalise it. Mr John Leaver has been brought in to manage the board on a two-year secondment from Marks & Spencer – which, unlike John Lewis, is retaining and investing in its store in Broadmead.

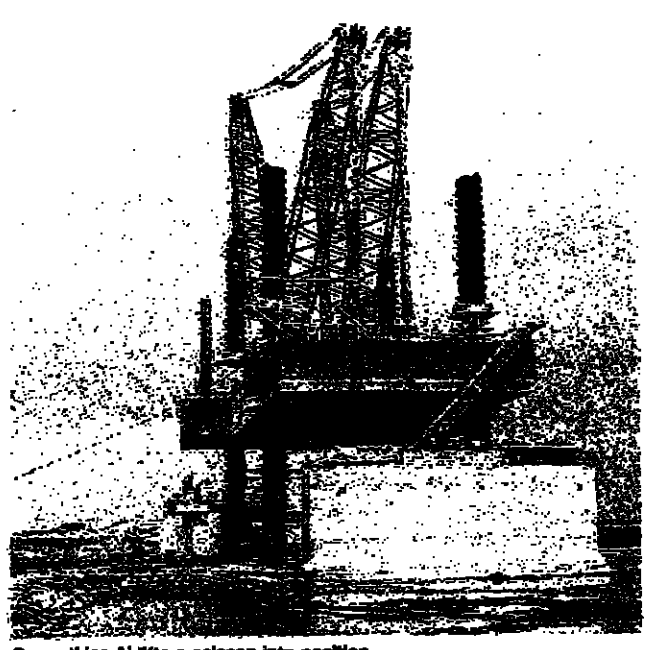
A notable counterpunch to Cribbs Causeway has been to replace John Lewis with another quality department store, Bentall's, which is to spend £10m in refurbishment. Street improvements are being made, a bid has been submitted to the Home Office to finance closed-circuit television surveillance, negotiations are underway to improve the car parks and, this month, a television campaign is promoting the fact that more than 100 shops have started to trade on Sundays.

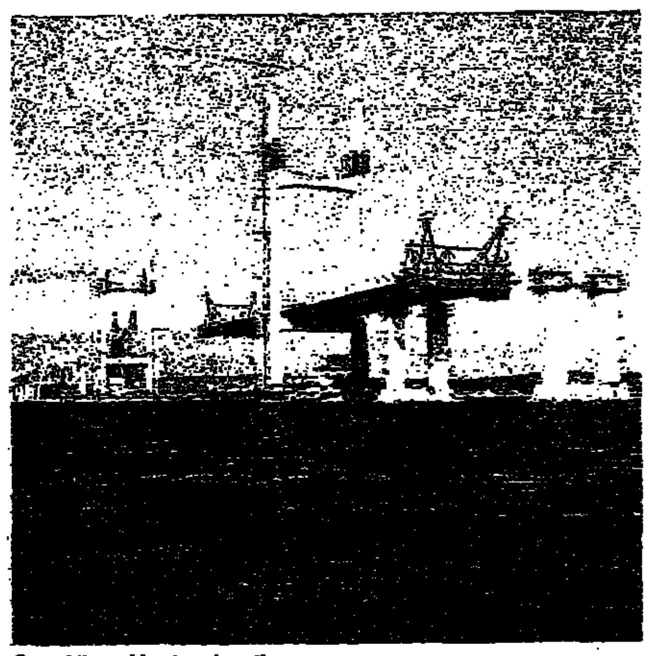
Mr Maskell welcomes the brightening of Broadmead. He argues that the Bristol area is "severely undershopped" and, together, Cribbs Causeway and Broadmead will add to the city region's appeal. Mr Leaver himself is confident. "Broadmead is a very robust commercial centre," he says.

"Bristol has so much to offer there is no reason why we cannot compete with out-of-town centres. But, in the past, we didn't go out to attract people, and now we've started to do it. At last, we are on the front foot and not on the back foot."

12 THE NEW SEVERN BRIDGE


STAGES IN CONSTRUCTION: the causeway at low tide


Crane 'Lisa A' lifts a caisson into position


One of the cable-stayed sections


Fixing reinforcement for the deck unit

■ **HOW THEY BUILT IT:** by Andrew Taylor

Bridge over troubled waters

Against all odds, the work was done within budget and with relatively few serious accidents

By any measure the construction of the new Severn Bridge has been an outstanding success.

The project has been delivered on time and within the original budget. The construction team will even have made "modest profit" on the work.

Until last week there had been only three serious accidents during construction – a record which compares quite favourably with other large UK civil engineering projects.

It has been a formidable accomplishment. The stretch of water crossed by the new bridge is one of the most hazardous in Britain.

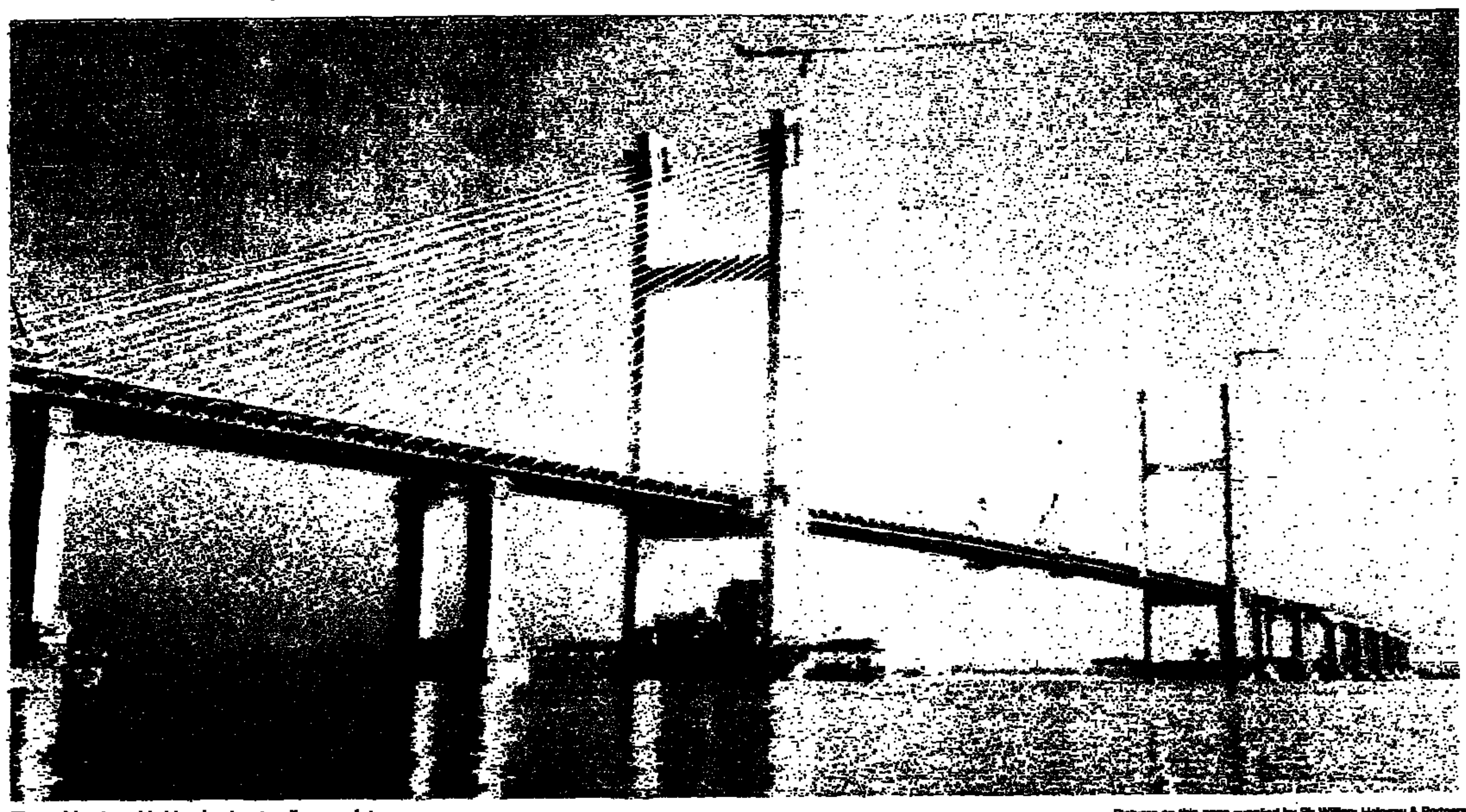
The tide rises and falls more than 40ft between high and low water and the current runs at 16ft a second during peak flow. The tidal range is the second largest in the world, behind the Bay of Fundy in Nova Scotia, where spring tides rise and fall more than 45ft.

Yet many in the construction industry had feared that the construction team would be unable to meet the project's exacting financial and engineering targets.

John Laing and GTM Entrepose, the British and French construction companies, were heavily criticised by rivals for offering a cut price when they won the concession to build and operate the new Severn crossing in 1990.

The disappointed bidders, which included Trafalgar House, which had built the privately financed Dartford road toll-bridge across the River Thames, claimed Laing/GTM would be unable to build it for the price and that the project would suffer considerable cost over-runs.

"The difficulties of operating in such an exacting environment cannot be over-stated," says Ian Jamieson operations manager. "It is not so much the tidal range but the speed of the current of up to 9 knots which makes conditions difficult." There was also the problem of strong winds which regularly force the existing Severn bridge to restrict traffic or even to close. "It always seems to be hit at bank holidays," says Jamieson


The cable stayed bridge is structurally complete

Pictures on this page supplied by Sir William Halcrow & Partners

The new bridge, designed by Halcrow/SEEE, the British and French consulting engineers, has a wind shield running its full length to ensure that one of the most important routes linking England and Wales is kept open, even in the worst conditions.

The contractors, to reduce the hazards of working in the open, decided to pre-fabricate as much as possible of the cable-stay bridge in on-shore factory conditions.

Purpose built concrete plants costing a combined £30m were established on both shores to manufacture the bridge piers and superstructure as well as the massive concrete caissons each weighing up to 2,000 tonnes on which the crossing sits.

Huge jack-up barges were towed into position and legs lowered to the estuary floor to provide stability, while the caissons and bridge piers were lifted into place to an accuracy of 50mm, helped by satellite positioning equipment.

Construction was further complicated by the presence of the 110-year-old brick-lined Severn rail tunnel under the route of the new bridge on the English side of the estuary. Bridge piers were designed to transmit the structure's load to rock below the railway. Ground monitoring instruments have been installed in the tunnel to check for unusual movements.

The construction of the railway tunnel in the last century had liberated an underground water source called "The Great Spring" which produces 11m gallons a day, some of which is used in the nearby Whitbread brewery.

The designers and builders of the new bridge have had to ensure that the quality and flow of the water is not disturbed. Tests are conducted fortnightly and sent for analysis to the brewery.

Navigation of the estuary presented another difficult problem as the structure of the new and the old bridges would act as a barrier to radar signals for ships, of up to 6,500 tonnes, using the river.

The solution has been to develop a new radar system using VHF radio signals from three strategically placed on shore radar stations. The system developed by dB Electronics of Bootle is now being exported to other parts of the world.

Much of the subsequent success of the design and construction of the bridge is due to the studies and work conducted by consulting engineers G Maunsell and W S Atkins appointed by the government in 1984 to investigate the possibility of building a new crossing.

Maunsell, which remains the government's agent for the project, was responsible for engineering and soil studies that established the concept for the bridge and identified some of the eventual construction solutions.

Ian Jamieson of Laing says the two years grace given to the consortium to prepare detailed designs, procure equipment and plan construction – while an Act of Parliament was passed to allow the project to start – proved invaluable.

The detailed designs and studies provided by Halcrow/SEEE meant that the contractors knew exactly what they would have to deal with and how problems were to be resolved.

"It is unusual to have so much time for preparation and the team took full advantage," says Jamieson. Another decision which reaped benefits, he says, was to employ directly all the 1,000 workers required for the job rather than sub-contract the work.

"This was technically more expensive in that we had to provide national insurance and other employee benefits but we gained in terms of loyalty and the quality of the workforce which I am convinced meant a lower over all cost," said Jamieson.

There were problems during construction, as with any large project, but these were mostly overcome.

At one stage, controls on a large gantry used to position sections of road deck went wrong, sending a deck unit in the wrong direction and damaging part of the completed roadway, which had to be replaced at a cost of several million pounds.

At the beginning of last year installation of the road deck was running 14 weeks late. A series of refinements to the process of putting the spans in place – "lots of small things, nothing spectacular" – meant that all of this leeway had been made up by the autumn.

Cynics may say that John Laing and GTM, each of which owns 35 per cent of the Severn River Crossing operating company, had every incentive to deliver on time and to budget. But this should not detract from a fine achievement.


Teamwork: (l/r) Norman Haste, Laing-GTM's project director 1992-95, Vincent Vesval, construction manager, and David Mizon of Halcrow-SEEE

FINANCIAL TIMES

COMPANIES & MARKETS

Wednesday May 15 1996

IN BRIEF

MedPartners to buy Caremark

MedPartners/Mullikin, the largest publicly traded physician-management company in the US, is to buy Caremark International, a leading healthcare company, for about $2.5bn in stock. The deal is the latest in the consolidation sweeping the US healthcare sector, and the biggest in the rapidly growing area of physician practice management. Page 19

Parmalat plans L500bn rights issue
Parmalat, the Italian dairy products and foods group, is planning a rights issue to raise at least L500bn ($323.45m) to cut debt and fund further expansion, *writes Andrew Hill in Milan*. The company yesterday announced proposals to issue up to 400m new shares at L1,250-L1,600 each, its first capital increase since 1993. The private family holding company which controls Parmalat is to underwrite at least 50 per cent of the issue. The quoted group said it was aiming to reach L5,500bn of turnover in 1996, compared with consolidated sales of L4,290bn last year. Net group profit increased from L102bn to L136bn last year but parent company profit fell slightly and the dividend was cut to L11 a share, against L13 for 1994. Group debt was L1,096bn at end-December 1995, against L961bn a year earlier.

MoDo down 28% amid pulp price gloom
MoDo, the Swedish forestry products group, reported a 28 per cent fall in first-quarter profits and cast doubts on hopes that wood pulp prices were set to rebound. Page 16

Chargeurs unveils details of demerger
Chargeurs, the French communications and textiles group, said its proposed demerger would be effective from June 24. Page 17

Fairfax tumbles 26% at nine months
John Fairfax, the Australian newspaper publisher which has been the focus of long-running bid speculation, announced a 26.3 per cent fall in after-tax profits for the nine months to end-March, at A$79.8m (US$63.9m). Page 18

Asarco, MIM part company after 60 years
Asarco, the US metals group, has sold its 15 per cent shareholding in MIM Holdings, the Australian mining company, for US$331.2m, ending a relationship that dates back to the 1930s. Page 19

GA plans car insurance price rises
General Accident, the Scotland-based composite insurer, pledged fresh action to reverse fierce price cutting in UK private motor insurance. It said further increases could follow a 4 per cent rise GA implemented last month. Page 20

PowerGen to announce £350m buy-back
PowerGen, the UK generating group whose bid for Midlands Electricity was blocked by the government last month, is expected to announce plans to return more than £350m ($532m) to shareholders through a share buy-back programme. Page 20

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	984	+	25
Asko	953	+	22
Henkel	648	+	13
Hoechst	492.2	+	11.95
Ind Werke	297	+	13
Falls			
Verein-West	343	–	9
NEW YORK ($)			
Rises			
Case	53	+	3⅜
Coachmen Inds	32⅝	+	4⅛
Nova	34	+	2⅜
Zilog	40⅝	+	3⅛
Falls			
Lone Star	33⅞	–	2⅛
Utd Am Health	11¾	–	2⅜
LONDON (Pence)			
Rises			
Ball (AH)	39	+	11
Caird	258	+	27
Page (Michael)	283	+	20
Falls			
Hodder Headline	224	–	36
Topnal Life	73	–	8
Waco	223	–	44
TORONTO (C$)			
Rises			
Biochem Pharm	60.0	+	2.8
Dusa Pharm	17.5	+	1.5
Spectrum Sig	14.0	+	1.5
Falls			
Cdn Satellite	8.5	–	0.7
Cimarron Pets	14.0	–	0.85
Guardian Cap	10.25	–	1.00
PARIS (FFr)			
Rises			
Lafarge	330.7	+	9.7
Legrand	925	+	25
Synthelabo	416.8	+	12.6
Falls			
Docks de Fr	981	–	116
Immobanque	750	–	20
Salmeg	351	–	12
TOKYO (Yen)			
Rises			
Nisshin Oil	859	+	23
Okuma	1150	+	30
Showa Shell	1130	+	50
Tokyo Style	1880	+	40
Falls			
Daiichi Pharm	1670	–	30
Kokuyo	2800	–	40
HONG KONG (HK$)			
Rises			
Dao Heng Bk	29.10	+	1.30
Kai Ming	9.45	+	0.35
Tai Ping	2.725	+	0.275
Falls			
China Foods	1.17	–	0.07
First Sign	1.53	–	0.10
Singamas Con	0.82	–	0.14
BANGKOK (Baht)			
Rises			
Pacific Ins.	38.50	+	3.50
Thai Fin Tst	50.50	+	4.50
Thaiuse	35.50	+	2.75
Falls			
Surapon Foods	48.25	–	5.25
Thai Comm	38.00	–	3.50
Thai Factory	51.00	–	4.50

New York and Toronto prices at 12.30

WestLB plans new products for Emu

German bank to expand in London after 59% rise

By Andrew Fisher in Düsseldorf

Westdeutsche Landesbank, Germany's biggest public sector bank, plans further growth in its London-based investment banking activities and will spend up to DM200m ($133m) in developing new products in readiness for European monetary union, Mr Friedel Neuber, chairman, said yesterday.

Despite uncertainties over whether Emu would start on time in 1999, he said: "We are assuming that that the timetable will be met." West Merchant Bank, the UK investment banking subsidiary now strengthened with the recent acquisition of stockbroker Panmure Gordon, aimed to offer new foreign currency products to its clients.

WestLB has about 750 people in its UK investment banking unit – including 250 at Panmure Gordon – and planned further growth, Mr Hans Henning Offen, deputy chairman said. Two years ago, it had 350. West Merchant Bank was producing an "exceptionally pleasing" net return on capital of more than 30 per cent and expansion would be aimed at maintaining that level.

The bank also announced a steep 59 per cent rise in first-quarter operating profits to DM400m but Mr Neuber said this pace could not be maintained over the year in view of financial market volatility and loan risks. But he expected the full 1996 to match 1995, when operating profits rose 58 per cent to DM1.11bn.

He was confident that current high capital spending – up 9 per cent last year to DM1.75bn, including growth in investment banking and Treasury operations – would benefit future profits. WestLB intended to build up its position in Europe, especially to take advantage of opportunities opened up by Emu, and was building up its Asian operations.

Mr Neuber said the bank's strong market share in D-Mark products was no longer enough to remain competitive. "Our customers – corporate clients, as well as institutional investors – increasingly demand foreign currency products."

The Panmure Gordon acquisition had enhanced WestLB's position in non-German equities and research, with business in swaps (helped by the acquisition of a team from Deutsche Bank) and bonds being strengthened.

Mr Offen said the planned DM200m spending on new investment banking products would mainly cover technical and software systems to support foreign currency business. But further investment to prepare West Merchant Bank for Emu could total "several hundred million D-Marks". He said WestLB had so far spent nearly DM100m to expand West Merchant Bank.

WestLB also intended to build up its assets management activities. It has DM50bn of funds under management. Last year's purchase of Banque d'Orsay had improved its position in France and growth was also planned in London, Mr Neuber said.

HK Telecom up 14% and bullish on prospects

By John Ridding in Hong Kong

Hongkong Telecom yesterday announced an increase of more than 14 per cent in net profits to HK$9.94bn (US$1.3bn) for the year to the end of March, and gave an upbeat assessment of its prospects in the face of increasing competition.

At the announcement of the results, Dr Brian Smith, chairman of Cable and Wireless, dismissed speculation that the UK group was about to sell a stake in its lucrative Hong Kong subsidiary. "The issue has not arisen and certainly isn't in my immediate plans," he said.

Expectations of a restructuring of Hongkong Telecom's share structure have been fuelled by the collapse of merger talks last month between British Telecommunications and C&W, and by a reorganisation in Hong Kong's aviation sector. The reorganisation, which saw Chinese companies take big stakes in Hong Kong airlines, has left telecoms as one of the few strategic business sectors without a large Chinese stake.

Mr Linus Cheung, Hongkong Telecom's chief executive, said the group's shareholding structure was irrelevant to its strategy of developing a role as a regional telecoms hub and diversifying its business activities.

Describing the 1995-96 results as encouraging, Mr Cheung said the company had resisted the rise in competition in the Hong Kong market and described an "extremely promising" outlook. According to Mr Cheung, the operator's market share had been only slightly eroded by the arrival of three fixed-line competitors, which were granted licences last year.

Hongkong Telecom retains a monopoly on international direct dial calls until 2006. But revenues from international services, affected by the economic slowdown in China and Hong Kong, grew by a meagre 1.3 per cent to HK$16.53bn. Part of the reason for the small increase, however, was an accounting change relating to the introduction of leased-line packages.

Mr Cheung said the group was seeking to reduce its dependence on international direct dial revenues and cited steady progress in this strategy. The operator's mobile telecoms division increased its customer base by 66 per cent to 270,000. This contributed to overall turnover of HK$29.41bn, a rise of 9.3 per cent.

Industry analysts said the results were in line with forecasts and argued that further profits growth could be achieved through continued efficiency measures.

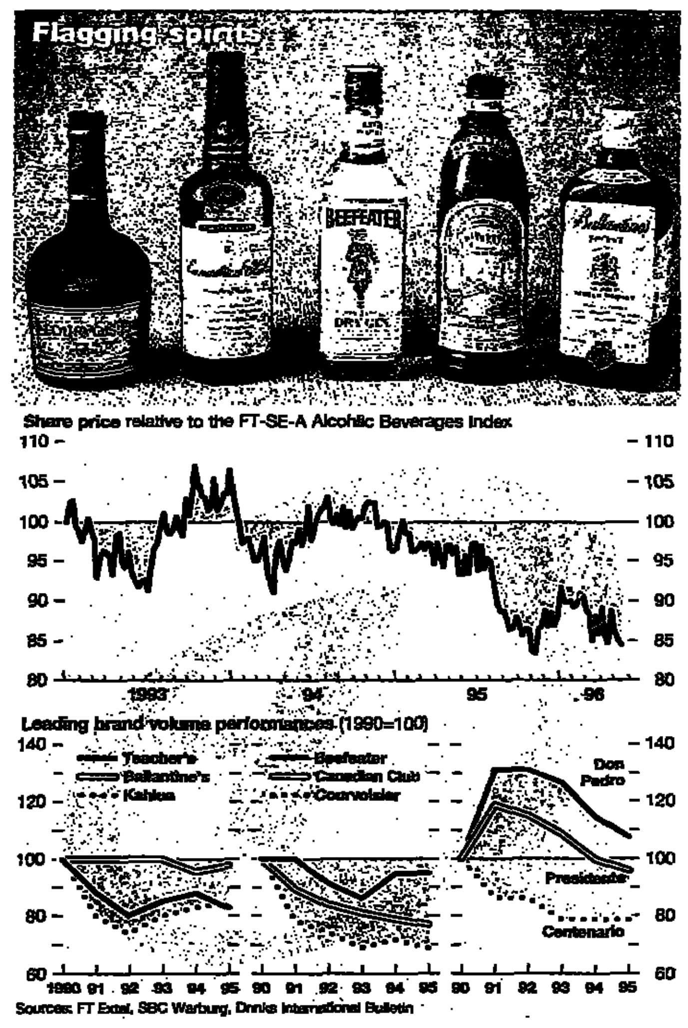
Mr Andrew Harrington, regional telecoms analyst at Salomon Brothers, said the company would easily achieve its three-year target, announced last year, of reducing its workforce by 2,500 to 13,500.

The rise in productivity restricted total operating costs to HK$18.31bn during the year, a rise of 6.8 per cent. The resulting operating profit was HK$11.09bn. Earnings per share increased 13.8 per cent to 88.8 cents, while a final dividend of 36.9 cents raised the total payout from 59.3 cents to 67.8 cents.

Lex, Page 14

Allied Domecq slides 20%

By Roderick Oram, Consumer Industries Editor



Sir Christopher Hogg, Allied Domecq's new chairman, ruled out yesterday any strong action in the medium term to revive the international spirits and retailing group as it reported a 20 per cent fall in interim pre-tax profits to £321m ($485m).

Demerger or other forms of "portfolio adjustment" were not his first priority, he told analysts. His emphasis instead was on helping existing management generate higher earnings. "This is a management that's as sure as hell doing a lot of work to improve its operating performance," he said later.

Allied's shares closed down 5p at 497p partly because some analysts were disappointed Sir Christopher unveiled no restructuring plans but mainly because Allied's spirits showed further deterioration. Analysts cut their year-end pre-tax profit forecasts by about £20m to about £565m. They expect trading profits to fall about 8 per cent this year.

Sir Christopher took the Allied chair last month with a formidable reputation for turning around companies such as Courtaulds. But unveiling an instant plan for Allied yesterday would have been contrary to his style, one analyst said.

The City of London is expecting at best only a slow recovery in Allied's earnings. Trading profits from spirits fell 21 per cent to £258m in the six months ended February.

Some factors were one-offs such as the change in year-end, devaluation of the Mexico peso and stock reductions by US wholesalers and retailers. As a result, first-half shipments to US wholesalers were down 15 per cent. But the underlying fall in spirits profits was probably about £15m, one analyst estimated, almost double his forecast.

Mr Tony Hales, chief executive, said the group had increased marketing spend on spirits and wines by 5 per cent in the first half. It also planned to revive some brands with large increases in advertising. The budget for Beefeater gin in the US, for example, will rise 80 per cent this year.

Trading profits from retailing – mainly UK pubs – were up £2m at £108m. Profits at Carlsberg-Tetley, its UK brewing joint venture, rose £3m to £25m. Volume was down 3 per cent but its main brands were up 13 per cent. The group declared an interim dividend of 9.44p. The change in year-end meant there was no comparable dividend. Earnings per share fell 23 per cent to 19.2p.

Lex, Page 14

AT&T and Unisource in Europe alliance

By Alan Cane

AT&T, the largest US long distance phone operator, and Unisource, a consortium of European operators, have agreed to merge most of their operations in Europe.

The merger will create a new company, AT&T-Unisource Services, which will be owned 60 per cent by Unisource and 40 per cent by AT&T. It will have two divisions: communications services; and multimedia and solutions.

The venture will have about 5,000 people in Europe and more than $1bn in revenues. Unisource comprises KPN of the Netherlands, Swiss Telecom, Telia of Sweden and Telefónica of Spain.

The two groups have also agreed to pursue joint research and development, common technology and services, joint billing and customer care.

A second company, AT&T-Unisource Investment, equally owned by the two groups, will be created to develop partnerships in Europe and make investments. As part of the agreement, Unisource has an option to take a minority equity stake in AT&T UK.

All of AT&T's European interests with the exception of calling cards and bilateral agreements will be taken into the joint venture. The Unisource partners' national operations will remain independent but international operations will become part of the merged group.

The move, which had been anticipated for some months, is seen as an attempt to give new focus to a group which is failing to achieve the market presence of Concert, the joint venture between British Telecommunications and MCI of the US, and Global One, the venture between Deutsche Telekom and France Télécom. All three groups are competing for the business of large international companies.

Mr Francisco Ros, president and chief executive of Unisource, said: "Joining our two companies in this way will make it easier to do business with our customers."

Mr Philip Barton, telecoms manager for the pharmaceutical company Zeneca and chairman of the association of leading telecoms users in Europe, welcomed the merger saying it would make it simpler for AT&T and Unisource to meet customers' requirements for diverse and sophisticated services.

Barry Riley

Tokyo and the art of hedge maintenance

So foreigners invested a record Y7,000bn ($66bn) in net purchases of Japanese equities during the fiscal year ended March, including Y1,100bn during the latter month. This has represented a massive commitment by global (especially US) investors to the Tokyo market's recovery potential.

But has it been worthwhile? True, after bottoming out at the end of last June the Tokyo market showed an impressive 42 per cent recovery up to the recent late-April high. But that was in terms of yen, and you had to be very smart to buy the stock market at the midsummer low.

If you had bought exactly a year ago, the current profit on equities in local currency would have been 23 per cent but the loss on the yen to a dollar-based investor would have been 18 per cent. It has therefore been essential to hedge the yen.

Curiously, the 10-year Japanese government bond yield is just about exactly where it was in May last year, at around 3.4 per cent – although it has been down to 2.8 per cent meanwhile.

Robert Fleming's Tokyo-based economist Richard Werner, who a year ago correctly predicted the Bank of Japan's liquidity boost which sent the yen tumbling, is now forecasting more of the same.

As last year, he says, the key movements will come in the third quarter, with the yen buckling to 120 to the dollar and the Nikkei advancing towards 25,000. Again, you do not need even a pocket calculator to work out that only the currency hedgers will win.

Recently, however, there have been fears about a recovery of the yen. Having bottomed at nearly 109 to the dollar in mid-April the yen has scared its bears (and further confused the Japanese institutions wondering nervously whether they should buy dollar bonds yielding 7 per cent) by rallying to about 105.

But Mr Werner focuses on liquidity, which he says continues to be plentiful in Japan while being quite tight in the US.

> Risk-seeking foreigners have held the Japanese stock market together during a disturbed period

Therefore the dollar must rise against the yen. In Japan, not only is the BoJ printing money quite fast but the banks are at last recovering from shell-shock and are starting to create net new credit again. Strong overall liquidity expansion will therefore push Japanese GDP growth towards 4 per cent.

Will this scare the BoJ into an early rise in official short-term interest rates? Commercial bank base rates are already edging up slightly. But the BoJ will not move before September, Mr Werner thinks. The BoJ is satisfied that essential structural changes are taking place within the Japanese economy (which until a year ago it was not).

Prices remain higher inside Japan than outside, so inflation cannot be imported through yen depreciation – at least, not for the foreseeable future. But a resumption of solid economic growth will be bad news for bonds in due course.

There remain some problems with this analysis, however. The Japanese current account surplus may have been falling but it continues to be large (some $90bn annually) and the Americans might not simply stand by and watch the yen fall well outside a trading range of, say, 105-110.

As for the stock market, risk-seeking foreigners have held it together during a disturbed period but risk-averse domestic investors are now required to take up the burden.

They may be the pension funds now firing life offices and hiring more aggressive foreign managers, or perhaps the individual investors who have recently been showing just a flicker of interest.

But without vigorous domestic take-up the foreigners may lose patience. Thus the London-listed closed-end investment trusts specialising in Japan have slipped slightly from their recent premiums to asset value, and Gartmore's Select Japanese offering attracted a rather disappointing £20m (though the Atlantis Japan Growth Fund did well).

Meanwhile there is the threat of massive domestic supply from equity-hungry banks which are said to want $30bn quite soon, and also from the Japanese government which hopes to unload railway company stakes worth upwards of $15bn.

The economy is on the move again, but Japan will take many years to clamber out of the financial hole it has dug for itself.

MoDo damps pulp price hopes

By Hugh Carnegy in Stockholm

MoDo, the Swedish forestry products group, yesterday cast doubts on industry hopes that wood pulp prices were set to rebound from a recent collapse, as it reported a 28 per cent fall in first-quarter profits.

Pre-tax profits fell from SKr1.3bn in the first three months of last year to SKr858m ($126.5m) as lower demand and price erosion hit performance. The result was better than market expectations – but would have been SKr300m lower without foreign exchange hedging, which shielded MoDo from the effects of a big increase in the value of the Swedish krona since last year.

Hardest hit of MoDo's main divisions was the unit covering fine papers and pulp, which saw operating profits tumble from SKr548m to SKr257m due to poor demand and falling prices.

Mr Bengt Pettersson, chief executive, said he believed prices for pulp, the main raw material for most paper products, had reached bottom. The benchmark long-fibre pulp produced from European and North American forests, for example, had crashed from $1,000 a tonne last September to below $500. At least two big producers have said they planned to raise prices to $560 a tonne from June 1.

But Mr Pettersson, whose company is a net seller of pulp, said pulp stocks in North America and Scandinavia, standing at more than 2m tonnes, remained "extremely high". He said it would be difficult to push through price increases.

Echoing comments this week from one of the industry's leading consultants, the Finnish company Jaakko Pöyry, Mr Pettersson said "Norscan" stocks had reached 2.5m tonnes in February, taking world stocks to 4m tonnes. There had been a reduction in March of around 400,000, he estimated.

But he added: "The Norscan stocks must come down to 1.5m tonnes before there can be stable price rises."

MoDo's fine paper and pulp division reported a fall in sales in the first quarter from SKr2.4bn last time to SKr1.9bn. Like pulp, fine papers suffered from lower sales and falling prices, although the price erosion was not as dramatic as for pulp.

Group sales were down 8 per cent from SKr5.7bn to SKr5.2bn, and operating profits fell from SKr1.4bn to SKr990m.

The company noted, however, that group sales were slightly higher in the first quarter than in the fourth quarter of 1995, and profits were only 4 per cent below the level of the previous quarter.

MoDo's printing papers division returned a stronger performance during the period than in the first quarter last year, chiefly because of good demand for newsprint and uncoated magazine papers.

Newsprint prices have risen strongly since a year ago, but MoDo warned of growing pressure on price levels. Division sales rose from SKr1.5bn to SKr1.7bn and operating profits jumped from SKr277m to SKr500m.

Creditanstalt urges group to lift bid

By Eric Frey in Vienna

Creditanstalt yesterday urged an international consortium to raise its bid for a majority stake in the Austrian state-owned bank, because of a sharp rise in its share price.

Mr Walter Fremuth, chairman of the supervisory board, said he expected the consortium led by EA-Generali, the Austrian subsidiary of the Italian insurer, to resume negotiations with the government over its 70 per cent voting interest.

Last year, the consortium offered Sch684 a common share, but a rally in Creditanstalt stock since the beginning of the year has boosted the market price to yesterday's close of Sch747.

The original bid valued the 70 per cent stake at Sch13.7bn ($1.27bn), while the current market value is Sch15bn. J.P. Morgan, which organised a failed public tender for Creditanstalt last autumn, also added a control premium for an estimated price range of Sch17.6bn and Sch18.8bn, or Sch880 to Sch940 a share.

The recent rise in Creditanstalt's stock price came amid speculation that investors close to GE Capital bought shares to prepare a bid by the US group for the bank.

The price rise has put the consortium in a quandary. It has made the only official offer and enjoys strong political backing, but some of its members lack the resources to increase the bid. The group also includes First Austrian Bank, Commerzbank of Germany and several industrial companies.

First Austrian appeared to have held preliminary talks with Credit Suisse to overcome the impasse and strengthen the bid. Vienna banking sources said. The Swiss bank, which abandoned its own bid for Creditanstalt last year because of political opposition in Austria, was asked to put together a Sch9bn underwriting consortium and to lead a secondary public offering for part of the government's stake, the sources said.

If such a deal came through, it would also boost the role of First Austrian in the consortium and give it a larger role in Creditanstalt's future.

Separately, Creditanstalt reported a 45 per cent jump in first-quarter operating profit from Sch1.11bn to Sch1.61bn.

Further support for Marseillaise de Crédit

By Andrew Jack in Paris

The French government yesterday announced FFr858m ($139m) in additional support for Société Marseillaise de Crédit, the state-owned regional banking group earmarked for privatisation.

The recapitalisation, which comes on top of FFr1.4bn provided by the state in the past two years, is the latest in a series of government-funded financial rescue schemes.

The details were announced as Marseillaise de Crédit unveiled losses for 1995 of FFr857m – after provisions on loans to small business and the property sector – after losses of FFr1.25bn in 1994.

The state said the new money was needed to allow the bank to reach internationally agreed solvency limits, and was conditional on measures being put in place to prepare it for a rapid sale.

It has called for a reduction in shareholders' funds, a programme of asset sales in non-core activities, and continued efforts to cut operating costs and reduce exposure to lending risks.

A sale of the state's shares is being planned for this autumn by the new head of the bank, Mr Pierre Habib-Deloncle, who took over after the abrupt departure of Mr Jean Matouk late last year.

Marseillaise de Crédit reported banking revenues almost unchanged at FFr1.1bn for the year at the consolidated level, and operating losses of FFr920.4m, compared with losses of FFr1.2bn in 1994. Client deposits were FFr17.6bn and net loans FFr15.8bn.

The bank said that once privatised, and with adequate shareholders' funds, it would fulfil its double role as a regional bank and a bank for the Mediterranean.

The government this months stressed it would support the FFr260bn in bonds issued by Crédit Foncier de France, a property lender which is quoted on the stock market and has top management appointed by the state.

The institution reported losses of FFr10.8bn after taking heavy provisions.

It also announced it was looking for a new financial partner.

NEWS DIGEST

New products drive 44% surge at SAP

SAP, the fast-growing German software group, yesterday reported 1995 net profits of DM405m ($264.1m), a 44 per cent increase over a year earlier, and said it was upbeat about the remainder of 1996. "SAP has the strength and the ability to maintain its absolute leadership in the market for applied software," said Mr Dietmar Hopp, chief executive.

Last month the group reported a 62 per cent rise in first-quarter pre-tax profits, to DM117m.

Mr Hopp said the group once again expected to double its sales this year in Japan, one of its three core markets with Germany and the US, where turnover totalled DM118m last year. He said the strong sales growth in 1995 – up 47 per cent to DM2.69bn, according to figures released last month – had been driven by increased demand for the company's R/3 software, whose sales rose 69 per cent last year. R/3 combines a series of specialist modules for various business areas.

About 72 per cent of turnover in 1995 came from sales of new products, like R/3, while sales of consultancy and other services accounted for about 19 per cent of overall sales. SAP recorded sales of DM225m, 8 per cent of overall sales, from the provision of schooling services. The group was particularly successful in the US last year, doubling its sales to where they accounted for a third of the total. The percentage of business done outside Germany rose to 70 per cent from 65 per cent a year earlier.

Michael Lindemann, Bonn

Thomson tube arm in AEG buy

Thomson Tubes Electroniques (TTE) is taking over the electronic tube business of AEG, the Daimler-Benz subsidiary, making it the world leader in the market with turnover of FFr1.75bn ($337.4m) and 2,500 employees. In payment, AEG will take a 12.5 per cent stake in TTE, a subsidiary of Thomson-CSF which, like other parts of the Thomson group, is slated for privatisation this year. TTE bought the tube business of ABB and Siemens in 1993 and launched a joint venture in China this year.

The takeover is typical of Thomson's strategy of making acquisitions to maintain turnover in declining markets. Mr Henri Magnan, the head of TTE, said yesterday the highly specialised electronic tube market was being eroded by falling defence orders and competition from solid state transistors. But TTE would maintain its strategy of developing new applications for plasma screens, medical radiology and telecommunications, he said.

The Matra defence division of Lagardère and the Alcatel telecommunications and engineering group are vying to buy Thomson. Mr Magnan expressed no preference between these potential buyers, but noted that defence now only provided 20 per cent of business for TTE, whose telecommunications activity had grown rapidly.

David Buchan, Paris

Canal Plus subscriptions rise

Canal Plus, the French pay television group, yesterday announced first-quarter revenues ahead 7.9 per cent to FFr2.7bn following a big rise in subscriptions for its services. Subscriptions over the first three months last year rose 11.5 per cent to FFr2.2bn, with 3.5 per cent growth in advertising and sponsoring, to FFr117m. There was a 9.4 per cent fall in other revenues, including a drop in business from some of the group's production subsidiaries.

Canal Plus reported a 5.3 per cent rise in French domestic subscribers to its basic encrypted television service, to 4.1m, during the first three months of the year, and a 4.4 per cent rise, to 246,000, among institutional subscribers. Outside France, average subscriptions rose 26.2 per cent.

Andrew Jack, Paris

Model launch helps brighten BMW outlook

By Michael Lindemann in Bonn

BMW, the German motor group, has been boosted by the introduction of a new 5-series model, after disappointing sales in the first three months of this year. The company said yesterday April sales had shown marked improvement, underlining its optimistic forecasts for the rest of the 1996.

Mr Bernd Pischetsrieder, chief executive, told the annual meeting in Munich that the improved April figures were mainly due to the successful introduction of the new 5-series BMW. The changeover to the new model was blamed for slowing sales in the first three months.

Sales for the first four months rose 6 per cent to DM16.3bn ($10.6bn), from DM15.4bn during the same period a year earlier. Mr Pischetsrieder said the "excellent" flow of new orders gave BMW every reason to be confident about the rest of the year.

BMW issued no figures for April, but Mr Klaus-Jürgen Melzner, analyst at Deutsche Bank in Frankfurt, estimated that the group had increased sales by 19 per cent last month.

This is much better than the 12.2 per cent increase in new car registrations in western Europe during April which the Association of European Car Manufacturers announced yesterday.

Mr Melzner said the introduction of the 5-series, and improved sales overall, would ensure that BMW profits this year would be much better than last year's DM692m.

However, he said he was more "hesitant" about the prospects for 1997, given BMW's plans to introduce a new 3-series model. Since the 3-series makes up 70 per cent of BMW sales, and sales always slow ahead of model changes, 1997 results were difficult to predict, Mr Melzner said.

Overall, the BMW group, including Rover in the UK, increased deliveries 4 per cent in the first four months of this year from 349,816 to 363,000.

BMW deliveries remained unchanged compared with 1995, while Rover deliveries rose 9 per cent to 162,000 cars, from 148,925. Deliveries of BMW motorcycles fell 2 per cent from 19,500 to 19,046.

Chargeurs unveils details of demerger

By Andrew Jack in Paris

Chargeurs, the French communications and textiles group, said yesterday its proposed demerger into two separate quoted businesses would be effective from June 24.

Pathé will take on its communications and media interests, including a 17 per cent stake in BSkyB and a 20 per cent stake in the Canalsatellite broadcasting network. It will receive net assets to the value of FFr3.9bn ($751.9m), after total debts of FFr1.5bn. It made pro forma losses for 1995 of FFr509m.

Chargeurs International, which controls the textiles and surface coatings businesses, will take in net assets from the Chargeurs group of FFr3.3bn, including debts of FFr397m. It suffered pro forma losses for 1995 of FFr65m.

Those assets or liabilities not clearly identified with one or the other of the two groups will be split, 54 per cent to Pathé and 46 per cent to Chargeurs International.

Under the deal's terms, announced earlier this year, existing investors will receive one Pathé share and one Chargeurs International share for each existing Chargeurs share.

Mr Jérôme Seydoux, chairman, told a meeting of analysts yesterday that Chargeurs was a "strange animal", split between its textiles and media interests. This partly explained why its shares traded at a discount to its asset value.

He saw no reason why shares of the new Pathé group should be discounted. "We are now purely a communications company," he said.

He said levels of debt within Pathé would be substantially reduced by the end of this year. He would not specify which assets might be sold, although he said Chargeurs' remaining stake in Danone, the French agro-food group, was likely to be disposed of. Chargeurs has announced it wants to sell its Walon car distribution business.

Under the agreement reached with French tax authorities which allowed the demerger to take place, Mr Seydoux must retain his shareholding in the two groups for the next five years.

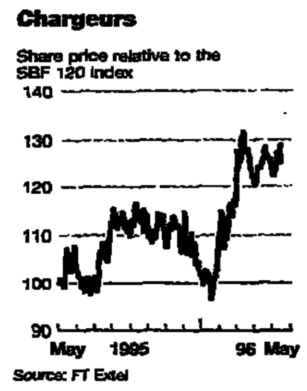
Mr Seydoux said he expected Libération, the left-wing daily newspaper in which his group now owns a 65 per cent interest, to return to break-even during 1997. He said it was useful for Pathé to keep "a foothold" in the print media. However, if it did not meet financial targets, "measures" would need to be taken.

Chargeurs demerger

■ Chargeurs International (textiles)			
Pro forma accounts FFr m	1995	1994	1993
Total assets	10,504	10,087	8,613
Net profit (loss)	(65)	277	(252)
■ Pathé (communication)			
Total assets	7,370	7,171	6,128
Net profit (loss)	(509)	67	155

Chargeurs

Share price relative to the SBF 120 index



Source: FT Extel

Ahold lifts first-quarter sales

By David Brown in Amsterdam

Ahold, the Dutch-based food retailer that operates in the Netherlands and the US, yesterday revealed a 10.9 per cent rise in first-quarter sales to Fl 9.5bn ($5.5bn). It said net profits had also advanced.

Ahold said operating results had climbed in all European and US operations, but declined to give details. Sales in the US advanced 15.8 per cent to $2.8bn, while Dutch turnover was up 3 per cent to Fl 4.4bn.

Mr Cees van der Hoeven, Ahold president, yesterday also outlined plans for expansion in east Asia, and said new pilot shops would be opened in Indonesia later this year and in Shanghai by early 1997. He said Ahold was in talks on the launch of supermarket operations in Thailand, Malaysia, and Singapore, with possible local partners.

Figures for Ahold's Stop & Shop acquisition in the US were not included in these figures. However, the deal, and an associated share issue, should be finalised in 1996, Ahold said. The tender offer has been extended by two weeks to May 31 to allow the US Federal Trade Commission to complete a review of the deal. Ahold said the FTC had requested further information.

Earlier, Ahold reported progress on resolving disagreements with the International Brotherhood of Teamsters, the US union that has publicly criticised the company's plans to introduce a new distribution system at the possible cost of local jobs.

Agnellis agree Fiat stake buy

By Andrew Hill in Milan

Ifi and Ifil, the two quoted holding companies of the Agnelli family, have formally agreed to buy Alcatel Alsthom's 2 per cent stake in Fiat, the automotive and industrial group, for about L350bn ($225m).

Alcatel, the French telecommunications and engineering group, indicated last year it was ready to sell the Fiat stake as part of a radical restructuring initiated by Mr Serge Tchuruk, the group's chairman. The Agnelli family, which founded Fiat and still controls the company through Ifi and Ifil, was always the most likely buyer.

The three companies said yesterday they had agreed a price of L5,300 a share, the average share price during April and a slight premium to yesterday's close of L5,244.

Alcatel raised its Fiat stake to 2 per cent in 1993 when it bought 18m Fiat shares at L7,000 each as part of the L5,000bn cash-raising package which helped Fiat pull out of the recession.

Ifi and Ifil will each acquire 1 per cent of Fiat, leaving Ifi with a 19 per cent stake in the carmaker, and Ifil with a 13.8 per cent stake. Ifi owns just over 50 per cent of Ifil.

Mr Giovanni Agnelli, honorary president of Fiat and chairman of Ifi, said the transaction was an indication of Ifi and Ifil's confidence in Fiat's future. Last month, Fiat announced a fall in pre-tax profits for the first three months of this year and said operating margins were down on the same period of of 1995.

Vattenfall and Statoil pounce on spun-off Hafslund

By Hugh Carnegy in Stockholm

Two of Scandinavia's biggest energy concerns – Norway's Statoil and Sweden's Vattenfall – pounced on the Norwegian hydro-power producer Hafslund on its first day as a stand-alone company yesterday, each buying a strategic stake.

The purchases were the latest moves in a rapid series of restructurings under way in the Nordic energy sector, following the deregulation of the Norwegian, Swedish and Finnish energy markets.

Statoil, the state-owned oil company, snapped up a 12.3 per cent stake and Vattenfall, the region's biggest electricity producer, bought a 10.1 per cent shareholding on the day Hafslund was listed on the Oslo bourse following the demerger of Hafslund Nycomed. Hafslund and Nycomed, the latter a pharmaceuticals group, were spun off to the old company's shareholders.

At yesterday's share price of NKr50, the Statoil purchase of 11.5m shares was worth NKr575m ($87.3m). It had previously held a 1.1 per cent stake in Hafslund Nycomed.

Vattenfall declined to say how much it had paid for its shareholding, but said it was beneath the opening day market price.

Statoil said its stake in Hafslund, which produces 2.3 per cent of Norway's electricity consumption, was in line with its commitment to energy production and distribution.

Vattenfall, also state-owned, said it saw opportunities for joint projects and co-operation with Hafslund.

Fairfax tumbles 26% at nine months

By Nikki Tait in Sydney

John Fairfax, the Australian newspaper publisher which has been the focus of long-running bid speculation, yesterday announced a 26.3 per cent fall in after-tax profits for the nine months to end-March, at A$79.8m (US$63.9m). In the same period of 1994-95, it made A$108.3m. The group also warned of a drop of 20 to 25 per cent in full-year earnings.

At the interim stage, Fairfax had posted an after-tax profit of A$62.4m, down from A$81.3m a year earlier. This suggests that profits in the third quarter alone fell by around 35 per cent.

The company said that revenue for the nine months was up by 7.2 per cent, to A$750m, a gain attributed to increased advertising rates and some new operations, notably the recently-acquired Australian Geographic magazine.

The nine-month profits downturn was also exaggerated by higher interest charges of A$29.3m, against A$27m, and increased depreciation and amortisation costs of A$39.5m, up from A$30.3m.

Earnings before depreciation, interest and tax were down by just over 10 per cent compared with the first three-quarters of 1994-95, at A$187.8m.

But Fairfax admitted that the third quarter's trading saw a deterioration from the already-evident weakness of the first six months. "The softness in the economy was further compounded by the impending announcement of a federal election... as a consequence, most of the company's major publications recorded lower advertising volumes compared with the corresponding period last year", it said.

Classified advertising volumes fell 2 per cent, while display advertising volumes were flat in the Sydney Morning Herald, down 9 per cent in the Melbourne Age, but up 2 per cent in the Australian Financial Review.

Operating costs in the first nine months were also up by almost 15 per cent, as newsprint expenses rose. Fairfax said that average newsprint prices were 26 per cent higher than in the prior year, adding A$22m to its costs. If this factor was excluded, operating costs were up by a more modest 6 per cent.

The group also offered little encouragement on prospects for the rest of the year, saying that it expected "trading conditions experienced in the March quarter will prevail over the balance of fiscal 1996, and that the widely-anticipated post-election improvement will not be forthcoming in the short term".

Earnings for the full year could be 20 to 25 per cent below the previous year, it added, although longer-term prospects remained good. Fairfax made A$147.3m after tax and abnormals in the year to end-June 1995.

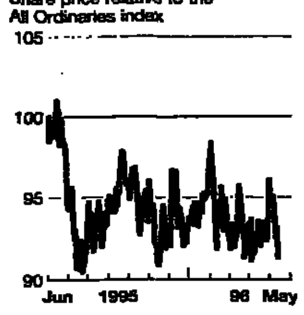
Fairfax currently has three media proprietors on its share register – Mr Conrad Black with a 25 per cent holding, Australia's Kerry Packer with just over 17 per cent, and Mr Rupert Murdoch with under 5 per cent – making it the subject of takeover speculation.

However, both Mr Black and Mr Packer are prevented from increasing their holding by current rules on Australian media ownership.

The new federal government has said it will review these rules, but has yet to launch the inquiry, and the earliest this could report is thought to be late-1996.

John Fairfax

Share price relative to the All Ordinaries Index



Source: FT Extel

Strong yen shares blame for 12% fall at Aiwa

By Emiko Terazono in Tokyo

Aiwa, the Japanese audio manufacturer which is a subsidiary of Sony, the consumer electronics group, blamed the strong yen and tough price competition for a 12 per cent decline in recurring profits – before tax and extraordinary items – in the 12 months to end-March.

Although consolidated sales rose 13.6 per cent to Y296.7bn, largely because of brisk sales of radio-cassette players and televisions, Aiwa said recurring profits reached only Y11.6bn ($110m).

Operating profits fell 10.6 per cent to Y14.2bn and after-tax profits, affected by a redemption of bonds, declined 13.6 per cent to Y5.3bn.

Over the past few years, the company has succeeded in lowering production costs by shifting manufacturing lines overseas.

However, although Aiwa's overseas production accounted for 87.7 per cent of its total last year, the low cost benefits were wiped out by increased competition and the resulting discounts of its products.

Domestic sales rose 6.4 per cent to Y62.4bn and overseas sales by 15.7 per cent to Y234.3bn, accounting for 79 per cent of overall sales.

The company forecasts consolidated recurring profits of Y11.6bn in the current year.

Commonwealth Bank buy-back approved

By Nikki Tait

Shareholders in Commonwealth Bank, the Australian commercial bank, yesterday approved plans for a A$1bn (US$800m) buy-back of about one-tenth of the group's equity.

The buy-back will be undertaken in conjunction with the sale of the federal government's remaining 50.4 per cent stake in the institution, probably in the coming months. If the stake were sold in one tranche, this privatisation – estimated to raise over A$4bn for government coffers – would be one of the largest undertaken in Australia.

But while the buy-back scheme won overwhelming backing at an extraordinary meeting in Sydney, numerous small shareholders raised doubts about the plan.

One investor suggested that if the bank was "awash with capital", it would be better to give shareholders a special dividend. Another questioned whether it would be preferable to conduct the buy-back after the government had sold its shares – thus providing support in the market – rather than in conjunction with the sale. A third wanted to know why shareholders should have to decide on the buy-back before knowing the terms of the government's sale.

In reply, Mr Tim Besley, CBA chairman, offered little new information, simply saying that all options had been considered and – backed by an independent expert's report – directors believed the buy-back proposed was the best solution for shareholders overall.

But he did confirm that he expected the government to reveal details of the share sale before the end of July. Mr David Murray, managing director, also said that profit performance was on target: "We said at the half-year that our profit for the second half we have no reason to vary that statement," he said.

● Shares in St George Bank, the Sydney-based regional bank which is in the process of acquiring Queensland's Metway Bank, jumped 10 cents to A$7.70 yesterday after it announced a 12.5 per cent increase in profits after tax but before abnormals in the half-year to end-March. The bank made A$75.6m, while "underlying profit" – excluding bad and doubtful debts, goodwill amortisation, as well as tax and abnormal – rose 19.7 per cent to A$141.8m.

St George warned that Australia's financial services market generally remained competitive, with the housing loan segment being particularly aggressive. But it said it was standing by earlier forecasts that full-year results would "comfortably exceed" the 1994-95 figure.

Westpac advances 17.7%

By Nikki Tait

Westpac yesterday opened the Australian banks' interim results season, reporting a 17.7 per cent increase in profits after tax in the six months to the end of March.

The bank made A$565m (US$452m), compared with A$480m a year earlier.

Earnings per share were 29.2 cents, an increase of 15.9 per cent on the same period a year ago, while the interim dividend rose from 13 cents a share to 16 cents a share.

The profits result came after a A$70m provision for bad and doubtful debts, compared with a A$220m charge last time. Net interest income increased 6.4 per cent, to A$1.55bn, while non-interest income rose 2.4 per cent, to A$714m.

Challenge Bank, the Perth-based bank which was acquired for A$689m in December, contributed A$8m to after-tax profits.

On a divisional basis, Westpac said operating profit from its main retail banking arm was down from A$338m a year ago to A$297m.

However, this was more than offset by strong profit growth in the institutional banking unit, and also by improvements in the commercial banking, property finance and New Zealand retail operations.

Market seeks reassurance about solidity of revival

Restructuring at Westpac seems to be making little difference to underlying figures, writes Nikki Tait

Bob Joss, the former Wells Fargo banker who was brought in as chief executive to sort out Westpac early in 1993, had a rather wary reception when he arrived in Australia. Three years on, it seems little has changed.

Westpac is the country's oldest commercial bank, but it is also the one left in worst shape by plunging property prices and recession in the early 1990s. Against this background, then, yesterday's interim figures should have been warmly endorsed.

Mr Joss says the group will be trying at least to match its A$565m after-tax profit in the second six months. If a full-year result of A$1.1bn to A$1.2bn were achieved, it would be a far cry from the A$1.56bn loss recorded in 1991-92.

However, although Westpac shares closed up 11 cents at A$6.02 the problem for some analysts yesterday was that the "underlying" result – profits once provisions for bad and doubtful debts are added back – was essentially flat between the first six months of 1994-95 and of the latest half-year.

Mr Joss's answer is that "it's a tough environment and certainly you see some margin compression, and also a slowdown in revenue growth". But he maintains that the figures can be characterised "as good steady progress".

"You have to look at some point at what is a kind of normalised bad debt performance – and also at how you're doing in the overall balance of things, between revenue and expenses," he says.

This, however, leads on to a second, more specific worry – namely, that a significant overhaul of the bank's branch network and a big internal restructuring does not seem to be generating much improvement in Westpac's cost and productivity ratios.

The operating expenses to income ratio was 61.7 per cent for the latest half-year. This compared with 59.3 per cent in the same period a year ago, although it was down on the 62.1 per cent seen in the second half of 1994-95.

Again, the bank has explanations. "We've got an awful lot on our plate," says Mr Joss, pointing to the recent acquisitions of Perth-based Challenge Bank and most recently, Trust Bank of New Zealand.

"[The cost-to-income ratio] is not where we'd like it to be be, nor where we would intend to take it. It's flattened out somewhat over the last 12 months. [But] we've an awful lot of things under way which we believe will bring down the cost picture."

In particular, he argues that the timing of the Challenge deal was less than favourable: "We'd rather have bought Challenge next year than last year." The Perth-based organisation has yet to be integrated into the Westpac network.

In the final analysis, perhaps the market's most fundamental concern is that things will simply get tougher from here on. Competition in Australia's home loan market, as new competitors muscle in on the banks' territory, has been rife.

Economic growth is slowing, and prospects for revenue growth are anything but buoyant. "It's the time in the cycle when revenue growth does slow down – the economy is growing more slowly and credit growth should slow up, just naturally," admits Mr Joss. He also concedes that financial risk appears to be increasing generally, with debt levels rising.

Admittedly, few analysts seemed anxious to take issue with Westpac's recent strategy of consolidating its position in core Australasian markets, rather than pursuing a more aggressive global stance. The point is made that results from National Australia Bank – Australia's biggest – which has been building up assets in the UK and the US, could be dented by currency movements this time round.

Nevertheless, the big issue is what happens next at Westpac. "The question is, where does it go from here," commented one Melbourne-based observer yesterday. "Are we getting towards the top of the mountain, or are we only halfway up?"

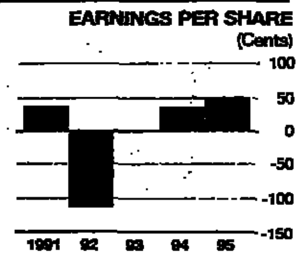
PROFILE:

Westpac Banking Corp

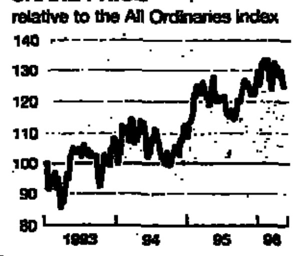
Market value: US$8.9bn | Main listing: Australia

Historic P/E	11.67
Gross yield	6.17%
Earnings per share	Cents 50.82
Current share price	A$ 6.02

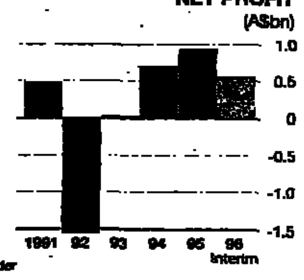
EARNINGS PER SHARE (Cents)



SHARE PRICE relative to the All Ordinaries Index



NET PROFIT (A$bn)



Source: FT Extel, Datastream, Huntleys' Shareholder

Bob Joss: figures can be seen as 'good steady progress'

JAPANESE CORPORATE DIGEST

Daiwa House up 2% but upbeat on 1996

Daiwa House Industry, Japan's second largest house builder, yesterday reported a slower than expected profits recovery last year but forecast a stronger upturn in the current 12 months, helped by increased demand from a reviving domestic economy. Daiwa House, traditionally the first construction group to divulge its results in the annual reporting season, said unconsolidated recurring profits – before tax and extraordinary items – rose only 2 per cent to Y70.04bn ($667m) in the year to March, on sales up 8.4 per cent to Y1,049.7bn. Profits came in slightly below market expectations, but nevertheless marked a significant improvement on the previous year's 8.6 per cent decline.

Leading the sales increase was a rise in demand for prefabricated steel-frame homes, Daiwa House's core business with 60 per cent of sales. Orders overall rose 11.6 per cent, but much of that improvement failed to reach the bottom line because of intense price competition in the general construction market, from which Daiwa House derived a quarter of sales, said Mr Takashi Hashimoto, equity analyst at Salomon Brothers in Tokyo.

In addition, Daiwa House took on increased administration and marketing expenses to cope with the sharp rise in housing demand after the Kobe earthquake in January 1995. The full revenues from Kobe reconstruction would not show through until later this year, said Mr Hashimoto. Daiwa House says demand is now increasing for warehouses, where the cost of sales is lower than in family homes. For that reason, it forecasts a 9.9 per cent rise to Y77bn in recurring profit for the year to next March, on a rise in turnover up 9.6 per cent to Y1,150bn. After extraordinary items, earnings fell last year from Y78.73 per share to Y75.02, from which Daiwa House will pay an unchanged annual dividend of Y17.

William Dawkins, Tokyo

Nippondenso cost cuts 'pay off'

Nippondenso, the vehicle components maker, reported firm results yesterday amid the continuing difficult environment in the Japanese vehicle industry. The company, which is 22.9 per cent owned by Toyota, Japan's largest carmaker, posted recurring parent profits – before extraordinary items and tax – of Y69.7bn ($664m) on sales of Y1,230bn. There is no direct comparison with previous results because the company has changed its financial year.

Nippondenso said the market continued sluggish owing to the fall in vehicle production in Japan, which was the main factor behind the weak sales it reported. However, the company benefited from cost-cutting measures which trimmed Y19bn off its cost base and lower depreciation costs as well as an increase in non-operating income.

The company was also helped by strong sales of particular models to which it supplied parts, such as Honda's Odyssey. The company does not expect demand for vehicle parts to increase substantially in the current year. As Japanese carmakers shift production overseas, vehicle production in Japan would be flat at best, the company said.

Against that environment, Nippondenso hopes to maintain sales at Y1,230bn this year by lifting sales of new products such as cellular phones and personal handyphone systems, which made a contribution to sales last year of Y23bn. The company expects cellular phones and PHS sales to reach Y40bn this year. In addition, cost cutting gains of Y17bn and a currency gain of Y10bn are expected to help Nippondenso post higher nonconsolidated recurring profits of Y75bn this year.

Michiyo Nakamoto, Tokyo

Itochu arm in reinsurance move

A subsidiary of Itochu Corp, the Japanese trading company, has been given a licence to act as a reinsurance broker for Lloyd's of London, Itochu said yesterday. Cosmos Jardine, a joint venture between Itochu and the Jardine-Matheson-owned JIB group, in which Itochu holds a 55 per cent stake, is the first Japanese-controlled company to receive such a licence.

The deal will enable the trading house to help Japanese and other casualty insurance companies buy Lloyd's reinsurance policies. Lloyd's accounts for about 20 per cent of the Japanese reinsurance market, but the deal is likely to encourage more Japanese and other companies to use the London market.

With the licence, Cosmos Jardine can now negotiate with underwriting syndicates organised by Lloyd's by representing Japanese insurance companies and other would-be policy buyers. Last month, the Japanese government relaxed several important restrictions, allowing Japanese companies to become reinsurance brokers.

Gerard Baker, Tokyo

NEWS DIGEST

Cost cuts and user growth boost PLDT

The Philippine Long Distance Telephone company (PLDT), the country's largest telecoms operator, boosted net profits by 18 per cent to 1.3bn pesos ($49.7m) in the first three months of 1996 as a result of rapid expansion of its customer base and reduced operating costs. The company, which had saw its shares rise 10 per cent in the past week before dropping 15 pesos on profit-taking yesterday to close at 1,510 pesos, said growth in its aggressive Zero Backlog expansion programme was behind the results.

The company, which two years after liberalisation still has more than 80 per cent of the national telecoms market, said the replacement of franchise taxes with value added taxes – which could be passed directly to the customer – in January had reduced costs 1 per cent to 4.2bn pesos. A redundancy programme, which cut the workforce by more than 4 per cent last year, had also kept down expenses.

"These results are much better than most people expected," said Mr Raffy Manalaysay, head of research at Crosby Securities in Manila. "It would be reasonable to assume annual profits growth of around 25 per cent on the basis of these figures." Combined local and national long distance network revenues, which make up 40 per cent of total revenues, rose 17 per cent while revenues from international calls increased 4.4 per cent. Total revenues rose 9 per cent to 6.5bn pesos. Analysts say that with a price-earnings ratio of 18 – roughly in line with the market – PLDT remains a relatively cheap blue-chip.

With a debt/equity ratio of about 50 per cent – though this is expected to rise after PLDT issues a US$250m global bond later this year – analysts say the company is keeping a tight lid on its capital expenditure costs. Apart from Zero Backlog, PLDT is switching the national system to fibre optic and replacing analogue lines with digital technology. The national market is expected to quadruple by 2000.

Edward Luce, Manila

Thai broker doubles in quarter

General Finance & Securities, a leading Thai brokerage company which heads a group applying for a new commercial banking licence, reported yesterday that net profit in the first quarter of 1996 was Bt210m ($8.3m), 99 per cent higher than a year ago. Earnings per share fell 35 per cent to Bt1.52 per share owing to an increase in the number of shares from 45m to 138.5m last year. Revenue was up 61 per cent to Bt1.97bn, while assets grew 44 per cent to Bt54.6bn.

The company attributed its strong profit growth to the performance of its investment banking division. This helped offset a decline in securities trading volume, which has caused profit declines at other brokerage houses. Earnings from securities operations were Bt378m, up 50 per cent from last year. The finance side of the company's business also showed strong growth – despite heavy exposure to the interest rate sensitive property and hire-purchase sectors – with revenue increasing 65 per cent to Bt962m.

Ted Bardacke, Bangkok

MedPartners to acquire Caremark in $2.5bn deal

By Lisa Bransten in New York

MedPartners/Mullikin, the largest publicly-traded physician-management company in the US, is to buy Caremark International, a leading healthcare company, for about $2.5bn in stock.

The deal is the latest in the consolidation that is sweeping the US healthcare sector, and the biggest in the rapidly growing area of physician practice management, which offers back-office services to small groups of doctors.

Caremark has physician-management operations in large cities around the US, including Chicago, Oklahoma City and Houston. It also has businesses that manage pharmaceutical and home healthcare costs.

After the merger, MedPartners would have 7,250 affiliated doctors, or about two-thirds of the total number of doctors allied with publicly-traded physician-management groups. The combined company would have annualised first-quarter revenue of about $4.4bn.

Only about 2 per cent of US doctors are allied with publicly-traded physician-management companies, but that is expected to expand quickly as the growth of managed healthcare forces small groups of doctors to find less expensive ways of managing their businesses. Such companies provide administrative help, information systems, access to capital and assistance with negotiating contracts with insurers and managed care organisations, in exchange for a portion of the doctors' fees.

Revenues at the 27 publicly-traded physician-management companies were about $6bn last year, according to Mr Douglas Sherlock of Sherlock Company, a boutique investment bank specialising in healthcare. He said he expected the area to grow as much as 25 per cent a year for the next five years as doctors focus on lowering costs and bargaining effectively with HMOs, which are rapidly becoming the primary payers of healthcare costs in the US.

"The emphasis on improving quality and cost controls requires an infrastructure that is more than a single doctor can possibly manage," he said.

MedPartners/Mullikin has been acquiring smaller group practices rapidly since it was spun off from Healthsouth, the HMO, in 1992. In the past six months MedPartners has acquired two of its biggest competitors – one public and one privately held – for about $744m.

Mr Larry House, chairman and chief executive of MedPartners, said he intended to continue aggressively buying group practices to maintain the 30 per cent growth in revenues and affiliated doctors over the next two years.

The deal broadens MedPartners' reach both geographically and in terms of the types of services it would be able to offer the insurers and HMOs that make up its client base.

Wall Street reaction to the announcement was muted. In early trading, MedPartners fell $⅞ at $25¼, while Caremark shares – which were valued at about $30¼ by the deal – rose $1 to $29⅝.

The transaction is expected to be completed by August pending approval by shareholders and regulators.

Asarco sells 15% stake to end link with MIM Holdings

By Nikki Tait in Sydney and Kenneth Gooding in London

Asarco, the US metals group, has sold its 15 per cent shareholding in MIM Holdings, the Australian mining company, for US$331.2m, ending a relationship between the two that dates back to the 1930s.

The disposal would result in an after-tax gain of $39m, or 91 cents a share, Asarco said. The proceeds would be used to reduce debt, saving about $21m in annual interest payments.

Mr Richard Osborne, Asarco chairman, said present market conditions in Australia, including a strong Australian dollar, allowed his company to accomplish the sale quickly and on attractive terms. Asarco would in future concentrate on investments which it operated and managed directly.

MIM told the Australian Stock Exchange that the shares were placed with "a broad range of Australian and international institutions".

According to local brokers, about 456m MIM shares were sold at A$1.705 each shortly after the market closed last night, a significant discount on the price of A$1.86 on Monday. The placing was handled by Bain Securities, a Deutsche Morgan Grenfell subsidiary.

Between the mid-1930s and the 1980s, MIM was in effect controlled by Asarco, which provided most of the money for the development of the Mount Isa ore bodies in northern Queensland. MIM took a cross-holding in Asarco in the 1980s and helped Asarco ward off a takeover threat from Mr Robert Holmes à Court, the Perth entrepreneur. MIM sold its Asarco holding in 1994 for A$290m.

Asarco and MIM enlarged their association to include Teck, a Canadian mining company, and Metall Mining, then a subsidiary of Metallgesellschaft of Germany. Between them they took control of Cominco, another Canadian company, and by the end of the 1980s the loosely-associated group accounted for 8 per cent of western world copper production, 12 per cent of zinc production and 19 per cent of lead output. The association quickly broke up after Metallgesellschaft hit financial difficulties in 1994.

Asarco made clear a year ago that it was not satisfied with the performance of its investment in MIM, but said at that stage that it was not a seller, given the level of the MIM share price.

Shortly before then, the US group had taken up two boardroom positions at MIM – a move which was thought to reflect the US group's desire to keep a closer eye on MIM's performance. The Asarco representatives will now leave the MIM board.

Asarco is the second significant shareholder to sell its MIM stake in the past month. In mid-April, Inmet, as Metall Mining is now called, placed its 75m shares – less than 5 per cent of the equity – at about A$1.903 each.

Richard Osborne: sale accomplished on attractive terms

Sony to buy US vehicle navigation specialist

By Michiyo Nakamoto in Tokyo

Sony, the Japanese consumer electronics maker, is to acquire a US company which specialises in digital map technology for car navigation systems.

Sony of America will purchase Etak, a leading developer of software for car navigation systems, from News Corp, the Australian media and entertainment group, for an undisclosed sum.

The acquisition is expected to help Sony solidify its position in car navigation, which it sees as a promising sector. Sony, which produces hardware for the systems, expects its car navigation business in the US to double this year.

Etak will continue to provide digital map software to other companies after the acquisition is completed, Sony said. The US company is aiming to cover the main metropolitan areas in the US and about 90 per cent of the US population within the next two years, it said.

Etak, which is also developing maps for the UK and Hong Kong, could provide Sony with an entry into those markets, although no specific plans have been made yet, Sony said.

Corning to spin off two businesses

By Tony Jackson in New York

Corning, the diversified US manufacturer, is to spin off its blood testing and pharmaceutical businesses as separate companies. Analysts said the two could have a combined value of more than $3bn.

The businesses had revenues of $2.1bn last year, contributing 38 per cent of Corning's sales and 28 per cent of profit before special charges.

The blood testing business, one of the biggest US laboratory chains with sales of $1.6bn, has seen profits squeezed in recent years by pressure on US healthcare costs. Pre-tax profits last year are thought to have been a little over $80m, giving slender margins of about 5 per cent.

Corning had already said it would dispose of the business. Rumoured trade buyers had included SmithKline Beecham, one of Corning's biggest rivals.

However, Corning said yesterday the net returns from a tax-free spin-off were higher than could have been achieved through a trade sale.

The spin-off of the fast-growing pharmaceutical business, which specialises in contract R&D work for drug companies, is less expected. Corning said sales would be close to $500m this year compared with some $400m last year, while pre-tax margins were more than 15 per cent.

The spin-off of the two businesses is seen as addressing two separate issues. With the laboratory business, Corning gets rid of a poor performer. With the pharmaceutical company, it hopes to highlight a growth business previously hidden within the group.

Corning's share price has performed poorly for several years.

Ms Kimberly Ritrievi, an analyst at CS First Boston, estimated that the research business could be valued by the market at $2.3bn, or $10 a Corning share, while the laboratories business could be worth $900m, or $4 a share.

Corning's shares rose $2 to $37¼ in early trading yesterday, valuing the group at $8.4bn.

Mr Van Campbell, chief financial officer, said the laboratory business could be spun off with debts of $500m-$700m. The research business would carry a lighter debt load, probably around its current level of $80m-$100m.

The chief executive of Corning Clinical Laboratories will be its present head, Mr Kenneth Freeman. The chief executive of Corning Pharmaceutical Services will be Mr Christopher Kuebler, also the present head.

NEWS DIGEST

Tiger Management buys USAir stake

Tiger Management, a New York based investment group led by Mr Julian Robertson, a noted US hedge fund manager, has acquired nearly 11 per cent of the ordinary shares in USAir, the US carrier in which British Airways holds a minority stake. The holding was revealed in a filing to the Securities and Exchange Commission.

Tiger declined to comment on the reasons for its investment yesterday, and USAir said it did not comment on decisions taken by individual investors. But the stake-building comes just two weeks after Mr George Soros, one of the world's most influential investors, emerged as holder of a 5 per cent stake in USAir's publicly-traded series B preferred stock, which is convertible to common stock at the holder's option.

The moves indicate that the two see potential in USAir's stock. But a conflicting signal has come from Mr Warren Buffett, another influential investor, who last week moved to unwind his position in USAir by asking the airline to buy back his tranche of series A preferred stock. USAir's shares were off $¼ at $17⅞ in early trading. *Richard Tomkins, New York*

Second-term record for Deere

Deere, the Illinois-based agricultural and lawncare equipment maker, reported record earnings for the second quarter, led by a surge in exports and overseas sales. Net income for the quarter rose to $272.7m, or $1.03 a share, from $237m, or $2 cents, in the same quarter of 1995. Sales for the period rose 10 per cent to $3.088bn, from $2.81bn a year ago. For the six months ended April 30, net income rose to $438.9m, or $1.67 a share, from $375.5m, or $1.45, for the first half of 1995. Six-month worldwide sales rose 10 per cent to $5.40bn, from $4.89bn a year ago.

The company said export sales from the US continued to strengthen, rising to $723m in the first six months of the year, up 12 per cent from last year's $645m. Overseas sales jumped 31 per cent from last year's first half, to $1.2bn. The first phase of a $187m sale of agricultural machinery to Ukraine will be completed in the third quarter. *Laurie Morse, Chicago*

Air Canada raises C$157m

Air Canada has raised C$157m (US$114m) net from a secondary offering of 2.2m Class B shares of Continental Airlines of the US, representing a C$128m gain, and will use the proceeds to reduce debt. It will retain 2.8m Continental B shares, or 10 per cent of the equity.

Mr Lamar Durrett, who took over as chief executive from Mr Hollis Harris at yesterday's annual meeting, said his top priority was to rebuild profitability through lowering debt and raising productivity. *Robert Gibbens, Montreal*

Fed approves SBC move

Nearly a year after buying S. G. Warburg for $860m ($1.32bn), Swiss Bank Corporation has finally succeeded in overcoming US regulatory hurdles and integrating the New York operations of its acquisition.

SBC had run in to the Glass-Steagall Act, the US legislation which permits banks in the US to derive no more than 10 per cent of total revenues from the distribution and underwriting of corporate securities. The Federal Reserve has relaxed this condition in giving permission on Monday for the formation of SBC Warburg Inc. It ends SBC's anomalous ownership of two separate investment banking operations in the US. The merged US operations, which will be headed by Mr Simon Canning, a former SBC executive, will employ about 1,000 people. *Nicholas Denton*

PowerGen buy-back as Midlands stake sold

By Patrick Harverson

PowerGen, the generating group which had its bid for Midlands Electricity blocked by the government last month, is expected today to announce plans to return more than £350m ($532m) to shareholders through a share buy-back.

The funds for the buy-back – which will be announced at the interim results presentation this morning – will come from the sale of PowerGen's 21 per cent stake in the regional electricity company to Avon Energy of the US for £353m.

The 80.3m shares were sold at 440p in a deal that clears the way for Avon – which is jointly owned by General Public Utilities of New Jersey and Cinergy of Cincinnati – to proceed with its own agreed £1.73bn takeover of Midlands.

Analysts said yesterday that PowerGen had been expected to reward shareholders with a large pay-out because after its bid for the regional electricity distributor was barred it had few other ways to spend its money usefully.

Unlike National Power, its rival generator, PowerGen is not expanding overseas and the options for investing in its domestic business were relatively limited, they said.

National Power is also considering returning value to shareholders. Its own bid for a rec – Southern Electric – was also blocked by the government last month, and it is believed to have between £1bn-£2bn available to spend. However, the group is expected to hand the money back to shareholders progressively through higher dividends rather than via a one-off special dividend or share buy-back.

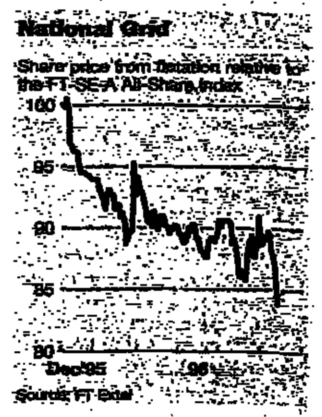
The disposal of the Midlands stake yesterday means PowerGen has abandoned plans to launch a judicial review of the government's decision to block its acquisition of the rec. It had threatened to challenge the judgment by Mr Ian Lang, trade and industry secretary, that the deal would hinder competition in the generation market, but its chances of overturning his decision were always regarded as slim.

The sale of the Midlands shares prompted PowerGen to bring its interim results announcement forward by more than a week. Although it will unveil its plans to return value to shareholders today, it is not expected to reveal whether it will withdraw from the £1.7bn sale of three power stations to Eastern Group, the rec owned by Hanson. That was agreed on April 30, but PowerGen threatened to abandon the sale after the government blocked its Midlands bid.

LEX COMMENT

UK utilities

Yesterday's across-the-board drop in utilities' share prices – a kneejerk reaction to Ms Clare Spottiswoode's hammering of British Gas – looks ill-considered. Similarly, investors who screwed up their last-minute applications for Railtrack shares on hearing the news should quickly pick them out of the bin. Take for instance Ms Spottiswoode's new policy on depreciation – an arcane point, but the source of much of yesterday's pain for British Gas. This is already a fact of life in the electricity sector, and close in effect to what the telecoms regulator is proposing for BT. For water and rail, where regulators work on different principles, it is irrelevant.



True, Ms Spottiswoode's severity has set an example for other regulators: her peers, doubtless, will not want to look soft by comparison. That is, though, pretty academic as far as water, electricity and rail are concerned – their next price reviews are years away. In any case, water and rail prices already discount hefty doses of regulatory risk. The same is not true of the recs: if anything, the fall in their overblown share prices looks like the right result for the wrong reason. There are really only two potential direct victims: BT and National Grid, whose price reviews are under way. But Mr Don Cruickshank, BT's regulator, is unlikely to need any lessons in aggression from Ms Spottiswoode. And the Grid's share price already discounts an extremely harsh review. Investors, in short, should be worrying about Ms Spottiswoode's real target rather than innocent bystanders.

GA to lift car insurance rates

By Ralph Atkins, Insurance Correspondent

General Accident, the Scotland-based composite insurer, yesterday pledged fresh action to reverse fierce price cutting in UK private motor insurance. It said further increases could follow a 4 per cent rise implemented last month.

The move coincided with figures showing a weather-related fall in first quarter operating profits from £112m to £55m and highlighted GA's attempts to position itself for deteriorating UK trading conditions

The group also announced 300 staff had been cut from its life operation – with another 300 to go – following GA's acquisition last year of Provident Mutual, the life insurer.

GA said integration was proceeding faster than expected and Provident Mutual contributed £1m, net of reorganisation costs, to long-term business profits of £20m, up from £16m. The group expects annualised cost savings of £23m this year.

Also pleasing the market was GA's disclosure that surplus, or "orphan", assets within its life funds might be worth as much as £1bn. But it insisted it had no plans to follow other insurers and consider a possible distribution to shareholders, saying the extra financial strength would help underwrite more life business.

Profits were hit by £70m (£20m) in weather-related losses on property insurance in the UK, US and Canada.

Rate increases are not being considered for homeowners.

Healthcare restricts BOC rise

By Daniel Green

Strong performances from BOC's gases and vacuum pump businesses in the six months to March outweighed a fall in profits from its healthcare division to leave pre-tax profits up 12 per cent at £217.4m ($330.4m). Turnover was up from £1.8bn to £1.98bn.

Operating profits in gases, the biggest division, rose 10 per cent to £197.9m as sales increased 9 per cent to £1.38bn. Underlying profit had grown in all regions, said the company. Mr Danny Rosenkranz, BOC's chief executive, painted an optimistic picture of the group's gas businesses, especially in the US where "the balance of supply and demand is the best I've seen for many years". UK demand was "robust" with increases in volumes of liquefied gases and prices of compressed gases.

Stewart Goldstein

Danny Rosenkranz (left) with Mr Tony Isaac, finance director, and an Edwards pump

The vacuum technologies business, which supplies specialist pumps, increased operating profits 39 per cent to £43.6m (£31.4m) as sales rose from £278.1m to £345.7m.

Most of the improvement came from its Edwards High Vacuum subsidiary.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied Domecq	6 mths to Feb 29	2,795	(3,306)	317	(416♥)	19.1	(20.9)	9.44	July 26	7.75	-	39.35‡¤
BOC	6 mths to Mar 31	1,976	(1,798)	217.4	(194.8)	27.65	(25.03)	13.5	Aug 1	12.4	27	24.8
British & American	53 weeks to Jan 7 ★	1.97	(1.66)	4.44♥	(1.29)	16.21	(4)	1.5	-	0.84	1.94	1.22
Cantab Pharms	*3 mths to Mar 31*	*0.017*	*(0.135)*	*1.81L*	*(1.62L)*	*0.17L*	*(0.16L)*	-	-	-	-	-
Diploma	6 mths to Mar 31	113.9	(107.5)	11	(13.5♥)	12.7	(15.5)	4.5	July 2	4.5	-	14.5
General Accident	3 mths to Mar 31	1,514■	(1,487■)	117	(142)	16.4	(20.7)	-	-	-	-	31
Hartlepool Water	Yr to Mar 31	5.89	(5.88)	1.99	(2.65♥)	21.6	(24.6)	4.5	July 1	4.1	7.1	6.5
Sea Containers ☆	3 mths to Mar 31	105	(98)	3L	(9.4L)	0.34	(0.88)	-	-	-	-	-
Sedgwick	3 mths to Mar 31	254.9	(246.3)	45.3	(42.7)	5.5	(4.9)	-	-	-	-	7.375‡
Telegraph	3 mths to Mar 31	72.9	(61.3)	6.6	(16.2♥)	2.4	(7.1)	-	-	-	-	13
UPF	6 mths to Feb 29	28.9	(23.5)	3.13	(2.57)	7.82	(6.41)	1.6	June 20	1.5	-	4.25
Westbury	Yr to Feb 29	193.7	(169.2)	11.5♠	(12.6)	11.1†	(12.2)	4.05	July 15	3.85	6.05	5.75

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Edinburgh	Yr to Mar 31	382.9	(319.9)	33.9	(30.5)	11.53	(10.37)	6.75	July 5	6.3	10	9.35
Fleming Inc & Cap	Yr to Mar 31	95.2	(80.3)	6.1	(5)	5.33	(5.41)	1.7	June 1	2.1	5.3	5.1
Gartmore European	6 mths to Mar 31	200.7	(178.5◆)	0.023L	(0.056L)	0.13L	(0.33L)	-	-	-	-	1.2
Invesco Blue Chip	Yr to Mar 31	68.5	(59.3)	1.23	(1.12)	9.75	(8.88)	5.495	July 31	5.495	8.4	8.4
Scottish Value	6 mths to Mar 31	124.85	(104.31)	0.831	(0.553)	1.65	(1.1)	1	July 10	1	-	2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ‡Included foreign income dividend element. ¤For 18 months; annualised equivalent 23.59p. ♠After exceptional charge. ♥After exceptional credit. ★Comparatives restated. ■Premium income. ☆US currency. †On increased capital. ΦAim stock. §USM stock. ◆At September 30.

Consultancy helps Sedgwick to beat forecasts

By Jane Martinson

Sedgwick, the insurance broker, reported better-than-expected results yesterday with a 6 per cent increase in first quarter pre-tax profits from £42.7m to £45.3m ($68.9m) in spite of falling premiums.

New business helped lift revenues 3 per cent to £254.9m (£246.3m) in the three months to March 31. Operating profits rose 4 per cent to £45.9m.

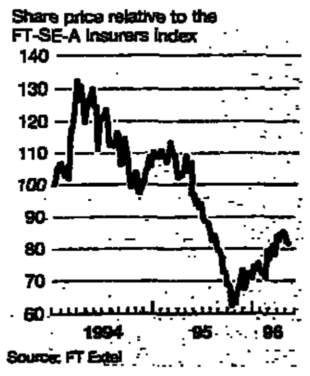
An improved performance in risk management and at Sedgwick Noble Lowndes, the financial services and consulting arm, lifted demand.

Mr Sax Riley, chief executive, said the group's strategy of moving towards fee-based consultancy work, typical of risk management, and away from traditional commission-based insurance broking was "starting to unfold and work".

Conditions in most sectors remained "tough", however, with insurance broking in Europe suffering the greatest cost pressures.

Mr Riley earlier this year increased speculation about a possible merger when he forecast large-scale consolidation in the industry. Yesterday, he would not be drawn on whether such consolidation was yet on the horizon.

Sedgwick



The bottom line was helped by a £1m cut in interest payments to £2.5m.

The introduction of a foreign income dividend in the last quarter of 1995 and changes to advance corporation tax helped boost earnings per share, which rose 12 per cent to 5.5p. The group intends to declare a FID at the interim stage.

The company spent between £9m and £10m on buying a German insurance broker, Oakwood Underwriting Agencies – which expanded the number of Sedgwick's Lloyd's members agencies – and a joint capital markets venture in the US.

Net cash stood at £72m.

The shares gained 3p to 149p.

NEWS DIGEST

Russian pair halt sacking by Bula

Two Russian directors of Bula Resources have obtained an Irish High Court injunction to prevent the Irish oil company sacking them.

Mr Alexandre Marichev and Ms Tatyana Kirillova obtained an injunction on Monday evening preventing any resolutions to have them dismissed being considered at an extraordinary meeting scheduled for today. Bula has confirmed that the meeting in Dublin will not be going ahead.

Mr Marichev and Ms Kirillova have a 48.5 interest in the Russian Corporation, a company to which Bula has paid more than $9.5m (£6.25m) since 1994 for an option over 51 per cent of Aki-Oytr, a Siberian oil producer. The two Russians joined the board in October 1994 after the deal was announced.

Bula is not expected to appeal the injunction but its board will meet to set another date for an egm. *John McManus*

Cantab seeks £25m from City

Cantab Pharmaceuticals is the latest biotechnology company to call for more cash from City investors. It intends to raise about £25m through a share placing. The cash would allow it to build more production capacity and to take at least one of its products through to the final stages of medical testing, said Mr Paul Haycock, chief executive. It may also buy "complementary technologies" to help research and development. Cantab has net cash of £8m and spends about £700,000 a month.

The company also released first quarter figures showing a net loss of £1.8m, or 17p a share against £1.6m, or 16p a share.

Turnover for the first quarter was £17,000 (£135,000). It was earned under the company's collaborative agreement with Pfizer, the US pharmaceuticals company, to develop vaccines for veterinary healthcare. *Daniel Green*

Unilever expands in El Salvador

Unilever has continued its expansion in Latin America by acquiring the outstanding shares in Oliva, a soap manufacturer based in El Salvador, for an undisclosed sum.

The purchase was made through Unisola, Unilever's joint venture with the De Sola family, which already owned 30 per cent of the shares. The remainder were purchased from the Gonzalez Giner and Araujo families.

Oliva is Unilever's fourth acquisition in Latin America this year, following the Compaceites group, a detergent and margarine manufacturer based in Panama; Malloa, a Chilean food company; and Capsa, a Paraguayan detergent group.

COMMODITIES AND AGRICULTURE

Excess rice inputs 'costing $2.5bn a year'

By Alison Maitland

Rice-producing countries in the developing world could save as much as $2.5bn by cutting back on excess use of fertilisers and pesticides, according to a report from the UN's Food and Agriculture Organisation.

The FAO says "the unbalanced use and over-usage of fertilisers and pesticides are among the most critical problems faced by the rice production sector".

It warns that developing countries could be using 2m tonnes too much nitrogen fertiliser a year, "resulting in excess rice production costs of around $500m".

China alone is estimated to use 10 to 20 per cent more fertiliser than is necessary, wasting some 500,000 tonnes a year at a cost of about $100m.

This over-use carries serious environmental implications, notably because the excess fertiliser degrades the soil and affects future output prospects.

The report, due to be discussed in Seville last night by the FAO's intergovernmental group on rice, says fertiliser subsidies are estimated to total around $1bn a year in the main rice-producing countries. "Where part of the over-use stems from fertiliser subsidies. . . the withdrawal of such subsidies results in net savings," it says.

In addition, the study says that over-use or misuse of pesticides is a widespread problem in most rice-producing countries, with rice often accounting for as much as half the pesticide use in a country's agricultural sector.

Pesticide use could be reduced to cut environmental damage by at least half without compromising crop yields. "Such gains, if aggregated to the regional level, imply cost savings of up to $1bn," says the report.

The study, entitled Rice and the Environment, says aggregate demand for rice is expected to grow by 1.8 per cent a year in the next 15 years. About 90 per cent of the demand will be in Asia, where very little land is left to develop. Pressures for yield increases will be greatest in that region.

Ms Chan Ling Yap, the FAO's senior rice specialist, said: "In the next 15 years, we'll see most of the increase in production through raising yields because of the lack of spare land. Unless countries pay more attention to getting the message across to farmers, there's going to be a problem".

Fertiliser use had increased sharply over the past 30 years in Asia. It rose from 19kg a hectare in 1960 to 110kg a hectare in 1980. By 1990, it was estimated at 185kg, with rates as high as 350kg a hectare in large areas of irrigated rice.

Yet average increases in yields in the region had been negligible in recent years, indicating that optimum fertiliser application rates had been reached or exceeded in many countries.

"The adverse impact exerted on the environment by the process of intensifying production on existing land during the past five to 10 years is illustrated by the maximum rice yields reaching a plateau," says the report. "In fact, in the past 30 years little progress has been made in raising yields under very intensive systems."

The soil can become stressed, leading to lower yields and less reponsiveness to fertilisers, which in turn can lead to even higher applications of fertiliser to achieve the same yields.

The report calls for greater use of farm manure, instead of mineral fertilisers, and the adoption of "integrated pest management", under which pesticides are applied only when necessary.

Another growing environmental threat is salination of paddyfields, caused by poor drainage and irrigation problems, says the report. "According to some estimates, the annual loss of irrigated land globally may be 1m-1.5m hectares, of which 25-50 per cent may be rice land."

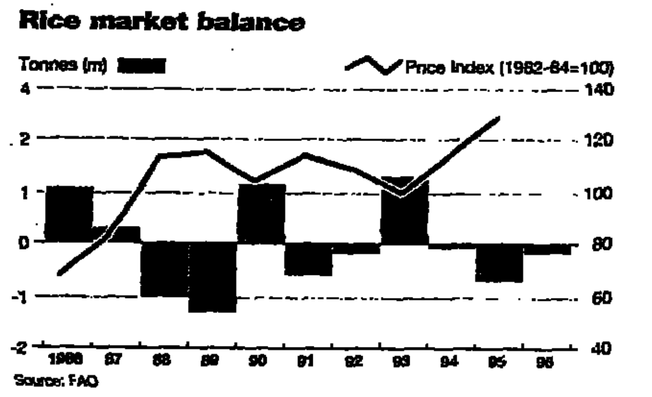
The world rice market is likely to remain tight this year, says the FAO. But the projected supply/demand shortfall of 200,000 tonnes is significantly lower than 1995's 700m tonnes.

As a result it expects prices to fall from last year's very high levels.

This has already started to happen, it says in its "Statement of World Rice Situation and Outlook 1995-96" prepared for this week's intergovernmental group meeting in Seville. Between January and mid-April the FAO export price index for rice fell by 7 points to 135 points, 16 points below the peak reached last October.

"With the harvest of the 1995-96 second season rice crop in the northern hemisphere countries now in the market, export prices could come under pressure in the next month or so."

Rice market balance



Source: FAO

Statistics bureau identifies problems with copper data

By Kenneth Gooding, Mining Correspondent

The World Bureau of Metal Statistics, whose data are used by many international metals markets analysts, has identified some of the reasons copper market statistics have been unreliable for several years.

It seems that published statistics tended to give a more bullish view of copper market conditions than was justified.

WBMS has found that copper exports to the west from Kazakhstan and Uzbekistan have not been picked up in east-west trade data and this has led to systematic under-reporting of western imports from the eastern bloc amounting to about 100,000 tonnes a year.

The bureau's new research also raises the possibility that European Union countries' directly-reported consumption data may be over-stated by 50,000 to 300,000 tonnes a year.

Mr Peter Hollands, editor of the Bloomsbury Minerals Economics' Copper Briefing Service, which raised the issue earlier this year, said yesterday: "While WBMS's research findings are still preliminary, they are encouraging in that the areas under investigation could account for much of the statistical discrepancy".

He said the findings so far seemed to support BME's identification of consumption data as the biggest single source of error. BME in its April newsletter estimated that consumption of copper in the western world last year was over-stated by 290,000 tonnes, that imports from the eastern bloc were understated by 175,000 tonnes and western world production figures over-stated by 35,000 tonnes. Mr Hollands said: "There has been a global supply surplus of copper since the middle of last year. The market's fundamentals are at the bearish end of the spectrum".

The United Nations-sponsored International Copper Study Group has organised a seminar in June as part of a global effort to ensure copper market statistics are more reliable in future.

Copper Briefing Service: £725 or US$1,150 a year from BME, 70 Marchmont Street, London WC1N 1AB, England. World Metal Statistics: US$1,885 a year from WBMS, 27a High Street, Ware, Herts, SG12 9BA, England.

LME WAREHOUSE STOCKS
(As at Thursday's close) tonnes

Aluminium	+4,225	to 843,750
Aluminium alloy	-380	to 84,660
Copper	-11,750	to 306,450
Lead	-150	to 89,600
Nickel	-318	to 34,814
Zinc	-8,475	to 597,350
Tin	+310	to 8,305

Anglo ready to spend $70m on reopening Zaire zinc mine

By Kenneth Gooding

Anglo American Corporation of South Africa is ready to spend US$70m towards re-opening the Kipushi zinc mine in Zaire, which was the eighth largest in the world, with an annual output of 80,000 tonnes of the metal, before lack of foreign currency for spare parts for its mechanical equipment forced its closure in 1993.

American Mineral Fields, a small US company that recently gained the exclusive right to negotiate a contract for the re-opening of Kipushi, said yesterday that Anglo would finance the first 20 per cent of the capital cost of re-opening the mine and constructing a new zinc and copper processing facility. AMF and Anglo would share the remaining costs equally and be 50-50 partners in its other joint ventures in Zaire.

After due diligence investigations, Anglo would be willing to spend a further $30m, or the first 20 per cent of the capital costs, towards a project to recover metal from tailings (waste) at the Kolwezi mine owned by Zaire's state mining company Gecamines.

The Kipushi mine, in Shaba Province near the border with Zambia, was estimated in 1991 by the CRU International consultancy group to be the second-lowest cost zinc producer in the world with cash costs of only 1.16 US cents a pound. The mine produced not only zinc and copper but also gold, silver, cadmium and germanium. When it closed the mine was reported to have reserves for another 20 years.

At least 99 gold mine closures forecast by 2000

By Kenneth Gooding, Mining Correspondent

At least 99 gold mines outside South Africa will permanently close in the next three and a half years. Between them they are producing an annual 197 tonnes or 6.33m troy ounces of gold – more than was mined last year in Canada or Russia or China, the fourth, fifth and sixth largest producers.

Meanwhile, growth of new gold mining capacity outside of South Africa will slow significantly, according to a survey by Mining Journal, whose database system tracks the activities of more than 2,100 metal mines and the companies that own them.

The net effect is that, whereas mined gold output outside of South Africa can be expected to increase by 125 to 128 tonnes this year and by 151 to 161 tonnes in 1997, production is likely to fall by up to 12 tonnes in 1998 and by 44 tonnes the following year.

Mining Journal has undertaken the survey as its contribution to the debate about what might happen to global gold output if production drops substantially in South Africa, the biggest producer. Some pessimistic analysts suggest that South African output will fall from about 523 tonnes in 1995 to 505 tonnes this year and to 500 tonnes in ten years.

Analysts also expect a substantial jump in gold output from emerging producer countries such as those in Latin America, West Africa, southeast Asia and the Commonwealth of Independent States.

MJ points out that much less attention is paid to the amount of gold capacity that is likely to close in coming years, "perhaps because, not unnaturally, mining companies seek more publicity for the commissioning of new mines than for the closure of old ones".

The organisation has used its data base to track those mines that will certainly close before the end of 1999 and also those that will close unless their owners find more reserves in the meantime. There are 17 mines producing 27 tonnes a year (868,000 ounces) in this latter category.

Among the big three producing countries, Australia is set to suffer the most gold mine closures. At least 37 Australian mines producing an annual 78 tonnes of gold (2.5m ounces) are scheduled to close before the end of 1999. This will be offset to some extent by 19 new mines scheduled to produce 53 tonnes a year (1.7m ounces).

MJ says all data about mine openings is "based on the published intentions of mining companies and no attempt is made to guess whether some of these plans might prove unrealistic".

MJ database service details from MJ, 60 Worship Street, London EC2A 2HD, England.

Forecast Net Changes in Annual Capacity (tonnes)

	1996	1997	1998	1999
US	+38/+38	+28	+7	-13
Canada	+25	+13	+3	-3
Australia	+3/+5	+1/+5	-19/-6	-30
Rest of World	+60	+111/+116	-1	-1
Total	+125/+128	+151/+161	-12/-2	-44

Uranium production boost planned

By Robert Gibbens in Montreal

Cameco, the world's biggest uranium producer, plans to raise capacity by 50 per cent by 2005 to meet strong demand from nuclear generators.

The company, now with about 18 per cent of the world market, produced a record 15m lb of uranium oxide last year.

Mr Bernard Michel, the president, says Cameco sees a potential supply gap of 50m lb by 2000 and firming prices.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1620.5-21.5	1655-55.5
Previous	1630-31	1664-65
High/low	1630/1628	1669/1645
AM Official	1629-30	1667-68
Kerb close		1645-46
Open int.	218,314	
Total daily turnover	75,669	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1350-60	1395-98
Previous	1355-65	1395-400
High/low		1402/1398
AM Official	1360-65	1400-05
Kerb close		1395-95
Open int.	5,379	
Total daily turnover	2,614	

■ LEAD ($ per tonne)

Close	847-8	842.5-3
Previous	843-4	837.5-8
High/low		844/837
AM Official	850-1	843-4
Kerb close		840-1
Open int.	36,239	
Total daily turnover	6,800	

■ NICKEL ($ per tonne)

Close	8150-60	8265-70
Previous	8280-90	8385-90
High/low	8275	8450/8170
AM Official	8275-80	8378-80
Kerb close		8180-85
Open int.	42,124	
Total daily turnover	14,706	

■ TIN ($ per tonne)

Close	6545-55	6555-60
Previous	6580-90	6585-90
High/low		6615/6540
AM Official	6570-80	6580-82
Kerb close		6550-55
Open int.	15,811	
Total daily turnover	3,899	

■ ZINC, special high grade ($ per tonne)

Close	1048-49	1075-75.5
Previous	1039-40	1066-67
High/low	1052.5	1080/1072
AM Official	1052-52.5	1079.5-80
Kerb close		1074-75
Open int.	73,700	
Total daily turnover	24,807	

■ COPPER, grade A ($ per tonne)

Close	2776-81	2679-80
Previous	2770-75	2675-76
High/low		2712/2673
AM Official	2800-01	2698-700
Kerb close		2675-76
Open int.	175,006	
Total daily turnover	80,347	

■ LME AM Official £/$ rate: 1.5171
LME Closing £/$ rate: 1.5160
Spot: 1.5151 3 mths: 1.5129 6 mths: 1.5115 9 mths: 1.5106

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	128.80	-1.20	131.40	128.70	423	5,530
Jun	128.60	-1.25	128.75	126.60	132	3,975
Jul	124.10	-1.45	126.50	124.10	4,923	28,210
Aug	121.80	-1.40	121.80	121.80	7	740
Sep	119.30	-1.40	121.30	119.30	391	5,032
Oct	117.70	-1.25	-	-	22	483
Total					6,127	52,773

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	391.80-392.20		
Opening	391.30-391.60		
Morning fix	391.25	257.72	488.75
Afternoon fix	390.70	257.51	488.38
Day's High	392.20-392.60		
Day's Low	390.30-390.60		
Previous close	391.20-391.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.46	6 months	4.10
2 months	4.40	12 months	3.88
3 months	4.35		

Silver Fix	p/troy oz.	US cts equiv.
Spot	353.75	536.25
3 months	358.40	542.55
6 months	363.15	549.25
1 year	372.55	562.35

Gold Coins	$ price	£ equiv.
Krugerrand	391-394	258-260
Maple Leaf	402.95-405.45	
New Sovereign	91-94	60-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	391.7	+0.2	-	-	-	-
Jun	392.9	+0.2	393.7	391.5	19,448	65,079
Jul	394.3	+0.3	-	-	-	3
Aug	395.8	+0.3	396.7	394.5	5,397	80,229
Oct	398.4	+0.2	398.3	397.3	48	5,682
Dec	401.1	+0.2	402.0	399.7	2,236	31,980
Total					27,570	286,192

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	404.6	-1.5	408.9	403.0	1,357	18,880
Oct	407.5	-1.5	409.5	407.0	187	3,724
Jan	410.2	-1.5	411.7	411.7	-	976
Apr	412.9	-1.5	414.0	414.0	111	1,407
Total					1,654	24,987

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	134.50	-0.05	134.50	133.50	125	4,615
Sep	135.85	+0.05	-	-	4	3,570
Dec	136.75	+0.05	-	-	5	577
Total					139	8,762

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

May	535.9	+0.5	539.0	532.0	28	202
Jun	537.9	+0.5	-	-	-	3
Jul	540.0	+0.5	543.5	535.0	6,560	65,073
Sep	545.1	+0.5	548.5	540.0	46	14,239
Dec	552.7	+0.5	556.0	548.0	65	9,605
Mar	560.3	+0.5	562.0	558.5	-	3,559
Total					6,738	97,998

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	21.21	-0.15	21.35	21.06	29,670	70,319
Jul	20.31	-0.07	20.53	20.19	19,608	83,173
Aug	19.60	+0.03	19.70	19.48	5,141	57,606
Sep	19.10	-0.01	19.19	19.02	2,267	36,938
Oct	18.78	-0.11	18.91	18.78	1,457	24,532
Nov	18.59	-0.12	18.70	18.58	363	16,771
Total					59,672	450,719

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	19.35	+0.02	19.57	19.20	22,634	27,938
Jul	18.56	+0.05	18.71	18.45	13,941	62,346
Aug	18.00	-0.04	18.10	17.92	3,647	23,321
Sep	17.67	-0.06	17.73	17.62	2,018	12,139
Oct	17.41	-0.13	17.50	17.41	1,113	7,921
Nov	17.30	-0.07	17.31	17.28	262	[illegible]
Total					43,668	155,025

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	55.15	-1.04	56.40	54.75	12,326	22,410
Jul	53.25	-0.80	54.00	52.80	5,273	18,231
Aug	52.95	-0.35	53.30	52.70	1,374	13,183
Sep	53.10	-0.50	53.50	53.10	640	8,609
Oct	53.60	-0.55	54.60	53.60	325	4,792
Nov	54.10	-0.80	54.20	54.10	383	5,064
Total					23,231	100,138

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	167.00	-1.25	170.25	166.00	4,811	15,183
Jul	163.50	-1.25	165.75	163.50	1,584	8,201
Aug	163.00	-1.00	164.00	162.25	273	6,916
Sep	163.00	-0.75	164.25	163.00	262	3,789
Oct	164.25	-0.25	164.25	164.25	17	1,989
Nov	164.75	+0.50	164.75	164.75	140	1,327
Total					7,371	88,682

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.260	-0.026	2.297	2.251	14,549	25,100
Jul	2.290	-0.033	2.330	2.285	5,444	25,547
Aug	2.270	-0.028	2.315	2.270	2,309	16,867
Sep	2.240	-0.031	2.273	2.240	1,562	15,217
Oct	2.240	-0.027	2.271	2.220	916	11,880
Nov	2.285	-0.015	2.305	2.280	377	8,048
Total					28,347	147,442

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	66.20	-0.51	65.50	67.70	11,857	28,331
Jul	63.10	-0.59	65.90	64.75	4,840	19,357
Aug	61.80	-0.37	62.20	61.55	1,484	14,719
Sep	58.90	-0.47	59.30	58.90	467	3,986
Oct	55.90	-0.47	55.90	55.50	28	1,506
Nov	54.50	-0.02	54.50	54.50	30	1,004
Total					18,758	69,105

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	127.05	-0.25	127.50	127.50	3	120
Jul	129.35	-0.50	130.25	129.50	83	1,727
Sep	116.75	-0.05	-	-	-	384
Nov	118.35	+0.10	118.75	118.25	149	3,030
Jan	120.40	+0.20	120.50	120.50	5	990
Mar	122.50	+0.25	122.50	122.50	5	140
Total					245	6,474

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

May	668.00	+14.00	668.00	655.00	79	329
Jul	583.25	-4.75	589.00	573.00	8,902	56,876
Sep	578.00	-5.00	585.75	568.00	2,830	15,482
Dec	586.50	-4.00	590.50	578.00	2,627	17,211
Mar	578.00	-3.00	577.00	572.00	38	1,501
May	517.00	-2.00	-	-	3	170
Total					15,528	93,049

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

May	505.00	-10.00	509.00	495.50	1,936	4,585
Jul	487.25	-6.00	492.00	480.25	38,486	162,354
Sep	418.75	+5.25	420.00	406.00	15,293	66,895
Dec	353.50	+0.50	354.00	348.00	40,596	146,674
Mar	358.50	-0.25	359.00	353.50	1,642	16,791
May	361.00	+0.25	362.00	357.00	284	2,203
Total					99,699	407,262

■ BARLEY LCE (£ per tonne)

May	116.00	-	116.00	116.00	25	119
Sep	110.00	+0.10	110.00	110.00	1	65
Nov	111.45	+0.20	111.50	111.50	10	654
Jan	113.65	-0.10	113.75	113.75	20	118
Mar	115.40	-0.10	-	-	-	41
Total					56	1,083

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

May	810.50	+6.00	811.00	795.00	1,156	1,547
Jul	818.75	+5.75	819.50	802.00	25,549	80,988
Aug	818.50	+5.50	820.00	803.00	1,997	12,555
Sep	800.00	+7.00	802.50	786.00	489	6,585
Nov	790.50	+8.00	791.50	776.00	12,563	74,290
Jan	796.50	+8.00	797.00	783.50	281	6,805
Total					42,485	192,494

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

May	27.15	+0.12	27.15	26.66	2,146	1,495
Jul	27.48	+0.14	27.52	27.00	8,715	53,071
Aug	27.68	+0.16	27.65	27.17	1,050	11,217
Sep	27.84	+0.14	27.75	27.35	649	5,369
Oct	27.98	+0.10	28.00	27.55	270	4,173
Dec	28.22	+0.04	28.25	27.78	2,254	19,503
Total					15,251	99,660

■ SOYABEAN MEAL CBT (100 tons; $/ton)

May	249.6	+0.9	249.8	245.5	1,565	1,571
Jul	252.8	+0.6	253.3	249.8	9,788	50,674
Aug	252.8	+0.6	253.0	249.8	1,150	11,479
Sep	250.2	+1.6	250.3	246.0	399	7,538
Oct	247.2	+1.7	247.5	243.5	1,597	17,257
Dec	247.5	+2.2	247.5	242.5	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ POTATOES LCE (£/tonne)

Apr	225.0	-	-	-	-	-
May	82.5	-	-	-	-	-
Nov	110.0	-	-	-	-	-
Apr	131.1	-2.4	134.0	132.0	72	1,000
May	141.0	-	-	-	-	-
Total					72	1,000

■ FREIGHT (BIFFEX) LCE ($10/index point)

May	1410	-3	1415	1400	15	705
Jun	1313	-11	1322	1315	7	557
Jul	1267	-5	1267	1267	2	2,019
Oct	1365	-	1365	1365	1	1,075
Jan	1380	-	-	-	-	52
Apr	1414	-22	-	-	-	32
Total					25	4,453

	Close	Prev
BFI	1438	1442

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1097	-8	-	-	-	179
Jul	1129	-7	1134	1127	783	22,397
Sep	1148	-5	1152	1146	786	45,377
Dec	1045	+2	1047	1040	1,270	28,324
Mar	1043	+2	1043	1037	539	33,777
May	1053	+1	1053	1049	188	18,848
Total					3,609	160,334

■ COCOA CSCE (10 tonnes; $/tonnes)

May	1412	-11	1418	1412	41	42
Jul	1418	-7	1425	1408	8,680	32,838
Sep	1427	-1	1430	1417	2,113	19,435
Dec	1441	+1	1445	1435	530	17,846
Mar	1446	+1	1448	1438	542	14,217
May	1464	+2	1464	1464	1	6,073
Total					9,850	99,883

■ COCOA (ICCO) (SDR's/tonne)

May 13	Price	Prev. day
Daily	1076.49	1050.93

■ COFFEE LCE ($/tonne)

May	1995	-3	1999	1985	186	1,689
Jul	1945	-5	1951	1935	1,692	17,072
Sep	1932	-12	1940	1925	808	6,229
Nov	1934	-3	1934	1918	36	2,874
Jan	1909	-4	1910	1900	48	1,765
Mar	1872	-8	1875	1868	38	700
Total					2,808	30,329

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

May	126.95	-0.20	130.00	126.55	81	477
Jul	126.65	+0.80	130.50	125.25	4,132	19,246
Sep	125.35	+0.25	128.50	124.40	606	5,280
Dec	122.85	-0.30	126.00	122.50	130	2,734
Mar	121.50	+0.25	124.00	121.10	30	823
May	120.00	-0.25	120.25	120.00	7	330
Total					4,986	28,959

■ COFFEE (ICO) (US cents/pound)

May 13		Prev. day
Comp. daily	112.12	112.84
15 day average	112.24	112.14

■ WHITE SUGAR LCE ($/tonne)

Aug	377.9	+3.3	381.0	375.0	2,518	11,988
Oct	346.2	+2.8	348.5	345.5	739	5,227
Dec	336.8	+3.2	337.5	334.5	244	3,333
Mar	331.9	+3.0	332.5	329.6	444	2,609
May	329.8	+2.4	331.0	329.8	146	1,195
Aug	328.0	+2.8	-	-	-	277
Total					4,139	25,233

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	10.91	+0.11	11.05	10.85	11,261	53,694
Oct	10.76	+0.02	10.82	10.68	1,968	39,903
Mar	10.72	+0.03	10.80	10.68	2,944	26,571
May	10.69	+0.02	10.78	10.69	974	7,373
Jul	10.67	+0.03	10.69	10.65	81	3,581
Oct	10.59	+0.03	10.59	10.59	1	1,418
Total					16,921	128,630

■ COTTON NYCE (50,000lbs; cents/lbs)

May	82.87	-0.06	83.10	82.20	4,783	24,930
Jul	82.46	-0.03	82.65	81.60	264	[illegible]
Dec	81.30	-0.02	82.25	81.25	2,812	27,281
Mar	82.51	+0.11	82.56	82.30	100	3,298
May	83.10	+0.10	83.00	83.00	14	1,541
Jul	83.30	+0.05	-	-	-	[illegible]
Total					8,006	64,462

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

May	117.35	-2.45	120.80	117.20	5,716	11,558
Jul	117.30	-2.45	120.50	117.30	1,772	4,373
Sep	115.50	-1.25	117.40	115.50	187	1,145
Nov	114.00	-1.90	116.25	114.00	332	3,005
Jan	116.50	-1.90	119.00	117.00	12	298
Mar	118.00	-1.90	-	-	-	184
Total					8,622	[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

May 14	May 13	month ago	year ago
2156.0	2137.6	2114.1	2326.0

■ CRB Futures (Base: 1967=100)

May 13	May 10	month ago	year ago
260.04	258.09	256.94	230.58

■ GSCI Spot (Base: 1970=100)

May 13	May 10	month ago	year ago
211.37	209.32	213.40	180.44

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	60.450	+0.575	60.700	60.125	8,601	27,087
Aug	62.850	+0.825	63.150	62.300	5,563	26,240
Oct	64.775	+0.475	64.950	64.400	3,467	19,186
Dec	62.650	+0.475	62.700	62.300	1,141	10,015
Feb	61.625	+0.25	61.750	61.400	788	8,960
Apr	64.600	+0.4	64.800	64.350	128	1,927
Total					19,743	94,291

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Jun	64.300	+0.025	64.575	63.750	4,420	15,730
Jul	60.900	-0.45	61.550	60.800	2,845	9,392
Aug	56.200	-0.325	56.550	56.000	1,040	5,699
Oct	51.675	-0.225	52.200	51.250	588	5,269
Dec	55.050	-0.025	55.375	54.850	672	5,249
Feb	75.500	-0.075	75.900	75.250	51	818
Total					9,618	43,843

■ PORK BELLIES CME (40,000lbs; cents/lbs)

May	90.675	+0.325	91.000	89.000	344	1,266
Jul	87.550	+0.95	87.650	85.825	2,207	6,068
Aug	84.375	+0.925	84.450	82.700	661	2,435
Feb	81.700	+0.15	82.250	81.250	67	549
Mar	82.400	+0.6	82.500	82.000	11	48
May	83.250	+0.25	83.250	82.750	1	58
Total					3,292	10,424

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1600	37	91	12	37
1700	5	42	77	88
1800	-	16	174	158
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
2500	269	144	-	38
2600	172	86	4	78
2700	89	46	20	136
■ COFFEE LCE	Jul	Sep	Jul	Sep
1900	121	198	76	164
1950	96	173	101	191
2000	76	154	131	222
■ COCOA LCE	Jul	Sep	Jul	Sep
875	254	276	-	3
900	229	252	-	4
925	205	229	1	6
■ BRENT CRUDE IPE	Jun	Jul	Jun	Jul
1850	-	55	-	53
1900	25	35	3	75
1950	10	21	-	108

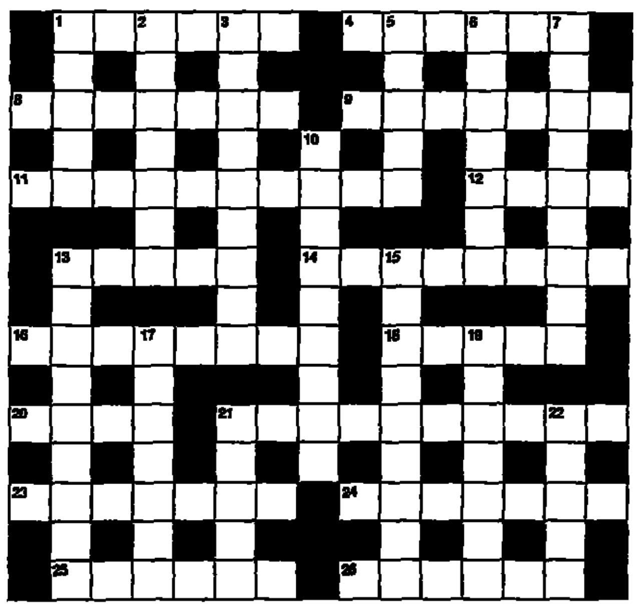
LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$18.89-8.89x	+0.045
Brent Blend (dated)	$19.57-9.61	+0.17
Brent Blend (July)	$18.58-8.60	-0.08
W.T.I.	$20.32-0.34x	+0.105
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$234-236	
Gas Oil	$175-177	-1
Heavy Fuel Oil	$103-105	
Naphtha	$190-193	
Jet fuel	$192-194	
Diesel	$178-180	-1
■ NATURAL GAS (Pence/therm)		
Bacton (Jun)	9.40-9.60	+0.10
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$392.05	+0.65
Silver (per troy oz)♣	540.50c	+2.0
Platinum (per troy oz.)	$403.00	+1.00
Palladium (per troy oz.)	$133.00	+0.50
Copper	136.0c	+1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	16.10r	
Tin (New York)	308.50	
Cattle (live weight)	102.10p	-0.15*
Sheep (live weight)	150.51p	-8.83*
Pigs (live weight)	120.25p	+13.01*
Lon. day sugar (raw)	$288.2	+9.7
Lon. day sugar (wte)	$401.0	+11.5
Barley (Eng. feed)	114.40	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	102.50p	+1.25
Rubber (Jul)♥	102.50p	+1.25
Rubber (KL RSS No1)	372.50m	
Coconut Oil (Phil)§	$820.0v	+7.5
Palm Oil (Malay.)§	$547.5z	+2.5
Copra (Phil)§	$503.0v	
Soyabeans (US)	228.0w	-2.0
Cotton Outlook'A' index	82.50c	+0.05
Wooltops (64s Super)	432p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. v Jun/Jul. z May/Jun. w Jun. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 3,900 head of pigs sold.

CROSSWORD

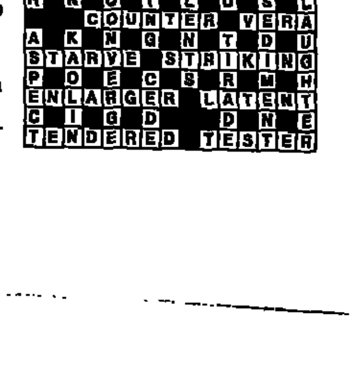
No.9,069 Set by ALAUN



ACROSS
1 The viewpoint of a party retaining power (6)
4 Prisoner who's had many a repeat sentence (6)
8 Dies unexpectedly at sea – terrible illness (7)
9 As a husband, does nothing right (7)
11 With which the vegetarian goes hunting? (10)
12 Concerned with a great performance (2-2)
13 Stick to the glass (5)
14 Opened with a solo turn – in the nude, dancing (8)
16 At the end, is prepared to give a description of the eyes (5,3)
18 Nicks it and beats it (5)
20 It's high backed, as before (4)
21 The novice is given money to pay the bill (10)
23 Not having the sense to grab you (7)
24 Funny clue about a mixed bar that could be made better (7)
25 Heard "break point" and "set" (6)
26 Stop bowing and don't be so formal (6)

DOWN
1 She dreamt she got caught in a lie (5)
2 Rings the bell and tries to persuade one to (7)
3 They buy most new cures, anyhow, that come out (9)
5 A love affair with Othello, say (5)
6 So I trot off to prepare the food (7)
7 It could be a flush from exhaustion (9)
10 Behaving pompously when playing a supporting role (9)
11 What controls the jet of water? (5,4)
15 Vulgar repartee from which you'll profit little (3,6)
17 A beauty, as breakers go? (7)
19 Enrage the trendy old girl (7)
21 An agreement on retirement, brief and to the point (5)
22 High but not squeaky? (5)

Solution 9,068



INTERNATIONAL CAPITAL MARKETS

US Treasuries higher as inflation fears subside

By Lisa Bransten in New York and Samer Iskandar in London

US Treasury prices were higher in early afternoon trading yesterday as weaker than expected April figures on the Consumer Price Index and retail sales eased fears about the potential for inflationary pressures to emerge.

Also, the yield on the two-year note moved below 6 per cent for the first time in nearly two weeks, as investors' concerns that the Federal Reserve might soon raise short-term interest rates receded.

Mr Joseph Liro, of CIBC Wood Gundy, said: "The combination of the retail sales and CPI reports reinforces the growing relief that the Federal Reserve will not need to take action to raise the funds rate."

Near midday, the long bond was ⅝ stronger at 88¼ to yield 6.845 per cent, the two-year note was up 1/32 at 99 29/32, yielding 5.976 per cent, and the June 30-year bond future was 7/16 higher at 109 7/16.

Although energy prices jumped by 3.2 per cent jump in April, the Consumer Price Index advanced by just 0.4 per cent and core inflation, which excludes the volatile food and energy components, was up only 0.1 per cent in April. Economists had forecast a 0.3 per cent rises in core inflation.

Even more heartening for bond market investors was the 0.3 per cent decline in retail sales in April, which suggested consumer demand is not going to lead to inflationary pressures. Economists had expected a gain of 0.1 per cent.

■ German bunds rallied on the back of bullish Treasuries. Liffe's June bund future closed at 96.79, up 0.49. In the cash market, the 10-year benchmark bund rose by 0.48 to 98.78, but failed to match the performance of the equivalent US note. The 10-year yield spread of Treasuries over bunds narrowed by 2 basis points to 36 points.

GOVERNMENT BONDS

■ French bonds also had a good day. Matif's June notional future closed at 123.42, up 0.42. The 7¼ per cent OAT due 2006 rose by 0.25 to 105.74, slightly *underperforming the equivalent* bund. The 10-year spread widened to 3 basis points from 1 point on Monday.

■ Italian bonds had a third consecutive positive session on expectations of the formation of a new government but BTPs closed off their highs on profit-taking. Liffe's June BTP future settled at 114.70, up 0.28 from Monday and 1.29 points higher than last Thursday.

The strength of the US dollar against the D-Mark was also a positive factor. In the cash market, the 10-year benchmark BTP closed at 99.77, up 0.32. The 10-year yield spread over bunds widened by 4 basis points to 333 points.

Bridgewater Associates, a US bond and currency management firm, said the tightening *of Italian and French 10-year* spreads over bunds "goes beyond [Emu-related] political analysis alone, and is rooted in more basic macroeconomic fundamentals".

Economists at Bridgewater believe inflationary pressures to be moderate and suggest that the French and Italian central banks "have more easing room than the Bundesbank" and that at current levels French and Italian bonds "are close to fairly valued relative to German yields".

■ Spanish bonos rose despite the release of stronger than expected consumer price data. The June bono future settled up 0.13 at 98.57. A 0.6 per cent rise in April's consumer price index was shrugged off as the data showed core inflation had *fallen by 0.3 per cent to 3.9 per* cent year-on-year.

■ UK gilts continued to trade quietly. Liffe's June long gilt future settled at 106⅝, up 9/16. The 7½ per cent gilt due 2006 closed at 96 9/16, up ½, yielding 7.99 per cent.

Mr David Wileman, a gilt salesman at King and Shaxson, pointed out that the market was trading at the top of the 104 to 107 range on the gilt future.

He believes that gilts have the potential to rally strongly if the 8 per cent level on the 10-year yield is breached decisively.

Mr Wileman forecast a narrowing of the yield spread of gilts over bunds to 160 basis points in the near future and said it could narrow to around 100 basis points in the next 12 *months. This spread stood at* 168 basis points yesterday.

Italian bonds to be made strippable

By Antonia Sharpe

The Italian Treasury is set to authorise the "stripping" of Italian government bonds from next year. The move is part of a broader reform of the Italian government bond market aimed at decreasing Italy's borrowing costs.

Mr Vittorio Grilli, director general of the Italian Treasury's department of debt and privatisation, said yesterday stripping will be possible from the start of next year, when foreign investors become fully exempt from withholding tax on Italian government bonds.

The change in the withholding tax will enable Italian gov*ernment bonds to trade on a* "gross yield" basis, which is a prerequisite for a strips market.

Both the US and France have strips markets and the UK is due to introduce strips sometime next year.

Stripping is the process of separating a coupon-bearing bond into its individual coupon and principal payments, which can then be separately held and traded in their own right as zero-coupon bonds.

Strips are widely used by institutional investors, such as insurance companies and pension funds, because they match liabilities more accurately than conventional bonds.

By creating a strips market – 10-year Italian government bonds are likely to be the first candidates – the Italian Treasury should achieve its aim of seeing greater institutional involvement in the country's bond market, which is still dominated by domestic retail investors.

Sparkling debut by Wachovia Bank of North Carolina

By Antonia Sharpe

Wachovia Bank of North Carolina, the most highly-rated bank in the US after Morgan Guaranty, made a sparkling debut in the eurobond market yesterday when it raised $500m through an offering of five-year floating-rate notes.

Thanks to Wachovia's efforts *over several weeks to promote* itself and its strong double-A credit to investors in the eurobond market, the offering sold out quickly.

Indeed, the speed at which the notes were snapped up led some syndicate managers to suggest that they had been priced too cheaply, especially when compared to FRNs issued by Abbey *National or* Commerzbank.

At launch, the discounted margin on the notes was 4 basis points over Libor but by the end of the afternoon it had come in to 3 basis points. Lead manager Merrill Lynch said *the pricing had been arrived at* after discussions with investors and added that it was unrealistic to expect a new borrower to achieve the same pricing as better-known issuers.

Wachovia is the latest US bank to diversify its investor base by tapping the international bond markets. The eurobond market is currently offering competitive funding levels to US banks which have traditionally relied on their domestic bond market for wholesale funding.

INTERNATIONAL BONDS

The other prominent deal of *the day was a debut yen global* bond offering from Fannie Mae, the US mortgage agency. Lead manager Nomura said the Y100bn three-year offering was the largest in the euroyen sector since November 1994, when the World Bank raised *Y200bn through a 10-year* global bond offering.

However, unlike the World Bank's offering, more than half of which was sold into Japan, there was only limited Japanese interest in Fannie Mae's bonds because of the small pick-up over the yield on Japanese government bonds.

Instead, the main demand for the offering came from Asian central banks and institutional investors in the region.

Fannie Mae's bonds are due to be priced today to yield 7 or 8 basis points over Japanese government bonds. The short maturity of the issue matched Fannie Mae's mortgage obligations. The proceeds of the offering are thought to have been swapped *into dollars.*

Elsewhere, Korea Development Bank duly issued its widely-expected $750m 10-year global bond offering which will be priced today to yield between 74 and 76 basis points over US Treasuries.

Lead manager Lehman Brothers said investors were attracted to the bonds because of the relatively high yield spread and the expectation that Korea would join the OECD by the end of the year, which should cause the spread would tighten by up to 15 basis points.

Commerzbank re-opened the euro-rand sector with a R125m issue of three-year eurobonds with a hefty coupon of 15.5 per cent led by Hambros Bank.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Korea Development Bank(s)	750	(a)#	(a)R	May 2006	0.35R	(a)(6¾%-06)	CSFB/Lehman Brothers
Wachovia Bk of Nth Carolina‡	500	(b)	99.826R	Jun 2001	0.175R	-	Merrill Lynch International
National Australia Bank	300	6.25	99.965R	Jun 1998	0.15R	+14(5¾%-98)	M Stanley/Tokyo-Mitsubishi
Morgan Stanley Group(c)‡	*250*	*(c1)*	*99.87R*	*Jun 2001*	*0.25R*	-	*Morgan Stanley & Co Intl*
Total Access Comm(d)§	200	(1½-2)#	100.00	May 2006	2.50	-	Lehman Brothers
NationsBank Corp(e)‡	50	(e1)	100.035	Feb 2003	0.20	-	IBJ International
D-MARKS							
Deutsche Ausgleichsbank	300	5.75	99.925R	May 2002	0.275R	+14(6%-02)	BayerLB/Lehman Brothers
YEN							
Federal National Mtg Assoc(l)	100bn	(h)#	(h)R	Dec 1998	0.15R	(h)(5.1%-98)	Merrill Lynch/Nomura Intl
LUXEMBOURG FRANCS							
Cera Bank	2bn	5.625	102.25	Jun 2001	1.75	-	BCEE/Cera Bank
ITALIAN LIRE							
Bayerische Vereinsbank	300bn	8.50	101.245	Jun 1999	1.375	-	BNL/HSBC/San Paolo, Turin
PESETAS							
European Investment Bank	*15bn*	*8.50*	*97.69*	*Jun 2021*	*2.00*	-	*BCH/BSN*
BNG	10bn	8.125	100.50	Jun 2001	1.625	-	JP Morgan
AUSTRALIAN DOLLARS							
Republic of Portugal(f)*	250	8.00#	99.57	Jan 2000	0.80	-	Yamaichi Intl(Europe)
SOUTH AFRICAN RAND							
Commerzbank	125	15.50	101.07	Jun 1999	1.50	-	Hambros Bank
CZECH KORUNA							
World Bank	1.5bn	11.00	100.00R	May 1997	0.15R	-	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today 74–76bp over Treasuries. b) 3-mth Libor flat. c) Callable from Dec 1997 at par. c1) 3-mth Libor +25bp. d) Fixed later this week: conversion premium indicated 15–18%. Callable from May 1999 with 2 yrs of 140% protection. Puttable in May 2001 at 75–125bp over Treasuries. Greenshoe: $50m. e) Fungible with $160m. Plus 8 days accrued. e1) 3-mth Libor +20bp. f) Priced later 7–8bp over JGBs. l) Long 1st coupon. s) Short 1st coupon.

Cades loan expected to set record in pricing

By Samer Iskandar

The FFr60bn loan to Cades, the French governmental institution created to manage the accumulated debts of the social security system, is likely to set a record in pricing.

The deal will come in two tranches. The first tranche, totalling FFr20bn, will mature in one year and will cost the borrower a margin of around 4 basis points over Pibor, the Paris three-month interbank offered rate.

The other, FFr40bn tranche will be a five-year loan with a margin believed to be 6 basis points over Pibor. Although *the margins seem tight, additional* pressure on fees is also likely. One UK bank official said Cades was negotiating "very small fees, if any".

The two French banks among the six arrangers, BNP and CNCA, are expected to take on up to FFr20bn, leaving around FFr40bn to be raised in syndication.

BNP and UBS will be joint book-runners; J.P. Morgan will be in charge of documentation; CNCA will be facility agent; and Dresdner and NatWest will be arrangers.

A large number of banks are showing interest in the deal, which was recently assigned a zero credit-risk weighting by the Bank of England and other European central banks.

The Bank of England said it had reached this decision after examining the structure of the guarantee granted to Cades by the government and confirm*ing that the new entity was* considered by the French authorities as "part of the central government".

The deal is expected to go into syndication on Friday and the total amount has to be raised before June 28.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	108.0920	+0.350	8.77	8.95	8.88
Austria		6.125	02/06	97.8000	+0.170	6.43	6.52	6.42
Belgium		7.000	05/06	102.3000	+0.220	6.68	6.76	6.66
Canada *		8.750	12/05	106.6300	+0.580	7.75	7.95	7.54
Denmark		8.000	03/06	104.1200	+0.400	7.39	7.43	7.43
France	BTAN	5.750	03/01	100.7300	-0.130	5.55	5.60	5.88
	OAT	7.250	04/06	105.7400	+0.250	6.45	6.51	6.51
Germany Bund		6.250	04/06	98.7800	+0.480	6.42	6.54	6.35
Ireland		8.000	08/06	102.6400	+0.490	7.61	7.79	7.97
Italy		9.500	02/06	99.7700	+0.320	9.53†	9.65	10.46
Japan	No 140	6.600	06/01	118.7021	-0.170	2.48	2.55	1.73
	No 182	3.000	09/05	97.0826	-0.240	3.42	3.41	3.05
Netherlands		6.000	01/06	97.7600	+0.440	6.31	6.46	6.33
Portugal		11.875	02/05	116.6200	+0.070	9.03	9.07	9.36
Spain		8.800	04/06	97.9500	+0.610	9.18	9.23	9.54
Sweden		6.000	02/05	85.3070	+0.170	8.44	8.60	8.60
UK Gilts		8.000	12/00	102-13	+7/32	7.36	7.57	7.41
		7.500	12/06	98-18	+16/32	7.99	8.24	8.05
		9.000	10/08	107-01	+18/32	8.09	8.34	8.18
US Treasury *		6.875	05/06	101-18	+21/32	6.65	6.87	6.26
		6.000	02/26	89-05	+24/32	6.86	7.08	6.62
ECU (French Govt)		7.500	04/05	104.0700	+0.430	6.87	6.99	6.97

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields	
Prime rate	8¼	One month 4.89	Two year 5.95
Broker loan rate	7	Two month 5.09	Three year 6.09
Fed.funds	5¼	Three month 5.13	Five year 6.34
Fed.funds at intervention		Six month 5.24	10-year 6.63
		One year 5.57	30-year 6.85

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	123.06	123.42	+0.42	123.42	123.05	127,787	158,552
Sep	121.58	121.96	+0.38	121.92	121.58	1,236	12,367
Dec	120.32	120.70	+0.32	120.60	120.32	490	6,483

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Jul	Calls Sep	Puts Jun	Puts Jul	Puts Sep
120	-	-	-	0.02	0.25	0.64
121	2.43	1.37	-	0.04	0.46	0.93
122	1.50	0.74	1.22	0.10	0.82	1.32
123	0.69	0.34	-	0.27	-	-
124	0.19	0.12	0.43	0.81	-	-

Est. vol. total, Calls 13,132 Puts 22,076. Previous day's open int., Calls 143,487 Puts 183,041

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.39	96.79	+0.49	96.85	96.37	163999	171793
Sep	95.43	95.87	+0.51	95.90	95.42	4327	21032

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
9650	0.47	0.38	0.58	0.74	0.18	0.69	1.18	1.57
9700	0.20	0.20	0.38	0.55	0.41	1.33	1.51	1.88
9750	0.07	0.11	0.24	0.40	0.76	1.74	1.87	2.03

Est. vol. total, Calls 22396 Puts 12159. Previous day's open int., Calls 244610 Puts 191159

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114.55	114.70	+0.28	114.95	114.55	43456	84630
Sep	114.00	114.08	+0.27	114.20	114.00	992	2270

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11450	0.67	1.74	0.47	2.18
11500	0.43	1.53	0.73	2.47
11550	0.25	1.29	1.05	2.73

Est. vol. total, Calls 4997 Puts 1905. Previous day's open int., Calls 78618 Puts 104141

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.47	98.57	+0.12	98.79	98.28	63,531	58,331
Sep	98.02	98.03	+0.06	98.031	97.94	27	164

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106-08	106-20	+0-18	106-24	106-07	48892	118509
Sep	105-12	105-20	+0-19	105-20	105-11	767	1146

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
106	0-56	0-52	1-12	1-29	0-15	1-12	1-36	1-53
107	0-19	0-27	0-51	1-02	0-43	1-51	2-11	2-26
108	0-04	0-12	0-32	0-45	1-28	2-36	2-56	3-05

Est. vol. total, Calls 2098 Puts 631. Previous day's open int., Calls 46601 Puts 45013

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.12	91.28	+0.36	91.32	91.12	557	6,922

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	108-26	109-19	+0-23	109-23	108-26	159,197	374,075
Sep	108-14	109-02	+0-23	109-10	108-10	2,450	43,281
Dec	107-26	108-17	+0-23	108-17	107-12	30	7,481

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	117.90		-	118.04	117.88	3293	0
Sep	116.73		-	116.89	116.73	1287	0

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue May 14	Day's change %	Mon May 13	Accrued interest	xd adj. ytd		Low coupon yield May 14	May 13	Yr. ago	Medium coupon yield May 14	May 13	Yr. ago	High coupon yield May 14	May 13	Yr. ago
1 Up to 5 years (23)	121.33	0.12	121.19	2.05	3.78	5 yrs	7.47	7.52	8.03	7.51	7.56	8.07	7.61	7.66	8.19
2 5-15 years (19)	146.22	0.36	145.69	2.97	3.56	15 yrs	8.17	8.22	8.12	8.19	8.24	8.19	8.28	8.33	8.42
3 Over 15 years (9)	161.21	0.45	160.49	3.77	3.48	20 yrs	8.24	8.29	8.12	8.26	8.30	8.19	8.32	8.37	8.34
4 Irredeemables (6)	185.36	0.70	184.07	5.19	1.47	Irred.†	8.30	8.36	8.19						
5 All stocks (57)	141.50	0.29	141.09	2.79	3.67										

Index-linked							Inflation 5% May 14	May 13	Yr. ago	Inflation 10% May 14	May 13	Yr. ago
6 Up to 5 years (1)	195.97	0.05	195.86	0.44	4.43	Up to 5 yrs	2.65	2.67	3.44	1.33	1.34	1.81
7 Over 5 years (11)	185.30	0.06	185.19	1.04	1.81	Over 5 yrs	3.60	3.60	3.50	3.60	3.61	3.39
8 All stocks (12)	185.41	0.06	185.31	1.03	1.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%–7¾%; Medium: 8%–10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	May 14	May 13	May 10	May 9	May 8	Yr ago	High*	Low*
Govt. Secs. (UK)	92.48	92.19	92.40	92.04	91.85	93.01	96.34	91.59
Fixed Interest	111.92	111.46	111.82	112.13	111.50	112.20	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	May 13	May 10	May 9	May 8	May 7
Gilt Edged bargains	78.9	102.1	112.4	102.9	93.9
5-day average	98.1	102.4	100.9	95.9	95.0

UK GILTS PRICES

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on May 14

[illegible]

STRAIGHT BONDS / FLOATING RATE NOTES / CONVERTIBLE BONDS

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Buoyant US asset prices help push dollar higher

By Philip Gawith

The dollar yesterday rallied close to a 16 month high against the D-Mark following the release of weaker than expected US inflation and retail sales data which prompted a rally in bond and equity prices.

It was also helped by general D-Mark weakness, prompted in part by concern over labour unrest in Germany. The dollar closed in London at DM1.5368, from DM1.5336, and at Y105.55, from Y104.97.

Elsewhere, the lira and Swedish krona were the main beneficiaries of the weaker D-Mark. The krona reached its strongest level against the D-Mark since January 1993, helped by optimism about lower interest rates and a rising bond market. The lira reached a 19 month high of L1,011.25, before finishing at L1,014. The krona closed at SKr4.401, from SKr4.423.

Markets were generally quiet, with attention focused on the release of the US trade figures at the end of the week. The release today of economic growth figures by the European Commission will also be closely watched for indications of the progress being made towards meeting the Maastricht convergence criteria.

The pound finished at DM2.3287, from DM2.322, and at $1.5153, from $1.5141.

The South African rand continued to rally, finishing at R4.32 against the dollar, from R4.37. This allowed Mr Trevor Manuel, the new finance minister, to tell parliament in Cape Town that "This deemed crisis, I assure you, will soon pass."

■ Currency markets remain finely balanced. According to Mr Avinash Persaud, currency strategist at JP Morgan in London, we are living in a "much more dollar friendly world". It is also a new world: last time yields on US treasuries rose by more than 100 basis points, in 1994, the dollar fell by ten per cent. This year, however, a similar move in bond yields has been accompanied by a seven per cent rally.

"The dollar is supported by higher yields and that makes the outlook for the currency more favourable," he said.

He did concede, though, that the firm dollar scenario faced two related risks: how to react to the German public sector unrest, and the potential for an outbreak of EMU pessimism, which would buoy the D-Mark.

The two events – public sector unrest in Germany, and the economic and fiscal health of EU members – are related. Mr Stephen Lewis of the London Bond Broking company highlights the problem: "The backlash against the policy of budget retrenchment has reached Germany...(but)...EU member governments will only sustain the hope of meeting Maastricht budget targets by imposing ever more stringent fiscal measures ...(which)...will depress activity rates further."

In Germany the ambitious budget savings package of Mr Theo Waigel, the finance minister, includes a two year wage freeze, but the public sector union is pushing for a 4.5 per cent increase. The government's choice is between backtracking from its target, or perhaps facing industrial unrest.

Mr Lewis argues that European forex and bond markets have made the mistake of "equating the undoubted truth that EMU will eventually depend on political decisions with the belief that it is a done deal. The politicians have not begun to face up to the choices which Europe's "growth recession" will impose on them. When markets realise this, convergence of European currencies and interest rates is likely to break down."

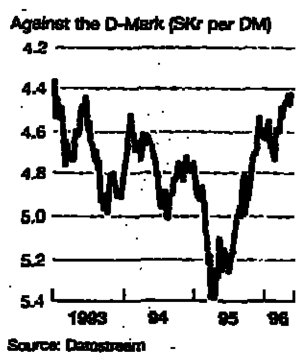
Mr David Hale, chief economist at Zurich Kemper Investments in Chicago, says Bundesbank officials have doubts about the viability of a single currency, but cannot stop Chancellor Kohl without some "exogenous political shock" which erodes his power.

He advances the Machiavellian thesis that "Instead of actively resisting the introduction of the Euro, many Bundesbank officials have decided to encourage a gradual devaluation of the D-Mark in order to lessen the support of German industry for switching to a new European currency."

With foreign investors holding nearly 40 per cent of Germany's public debt, this process cannot be taken too far. But he believes the Bundesbank would be happy to tolerate a 10-15 per cent decline against the dollar and the yen. Mr Lewis maintains that the Bundesbank is on much stronger ground opposing EMU than it was when overruled by Mr Kohl on the subject of German currency unification.

Swedish krona

Against the D-Mark (SKr per DM)



Source: Datastream

■ Pound in New York

May 14	– Latest –	– Prev. close –
£ spot	1.5150	1.5145
1 mth	1.5141	1.5136
3 mth	1.5127	1.5122
1 yr	1.5089	1.5081

■ OTHER CURRENCIES

May 14	£	$
Czech Rp	41.5704 - 41.7075	27.5070 - 27.5170
Hungary	225.225 - 225.505	148.660 - 148.780
Iran	4543.35 - 4541.19	3000.00 - 3000.00
Kuwait	0.4543 - 0.4547	0.2999 - 0.3000
Poland	4.0034 - 4.0078	2.6625 - 2.6640
Russia	7527.54 - 7538.08	4969.00 - 4972.00
UAE	5.5641 - 5.5673	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

May 14		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.3878	-0.0494	797 - 958	16.4042	16.3278	16.3565	2.3	16.2815	2.6	-	-	104.6
Belgium	(BFr)	47.8835	+0.153	405 - 264	47.9300	47.5880	47.7785	2.6	47.5685	2.6	46.5485	2.6	108.5
Denmark	(DKr)	8.9865	+0.0169	818 - 911	9.0042	8.9601	8.9711	2.1	8.9383	2.1	8.795	2.1	107.2
Finland	(FM)	7.2178	+0.0131	106 - 250	7.2340	7.1920	7.2134	0.7	7.2054	0.7	-	-	82.4
France	(FFr)	7.8792	+0.0259	767 - 816	7.8918	7.8456	7.8651	2.1	7.8372	2.1	7.7043	2.2	109.0
Germany	(DM)	2.3287	+0.0067	276 - 298	2.3335	2.3203	2.3237	2.6	2.3133	2.6	2.263	2.8	108.0
Greece	(Dr)	368.764	+0.671	530 - 997	369.330	367.735	-	-	-	-	-	-	67.2
Ireland	(I£)	0.9711	+0.0006	705 - 716	0.9724	0.9689	0.9705	1.0	0.969	0.9	0.9622	0.9	98.4
Italy	(L)	2368.83	+4.03	718 - 048	2360.80	2350.42	2357.08	-4.2	2382.18	-4.0	2434.88	-3.2	76.5
Luxembourg	(LFr)	47.8835	+0.153	405 - 264	47.9300	47.5880	47.7785	2.6	47.5685	2.6	46.6485	2.6	108.5
Netherlands	(Fl)	2.6032	+0.0078	020 - 043	2.6089	2.5939	2.5969	2.9	2.5942	2.9	2.525	3.0	106.8
Norway	(NKr)	9.9874	+0.0156	791 - 957	10.0058	9.9806	9.9764	1.1	9.9563	1.2	9.8638	1.2	98.3
Portugal	(Es)	239.130	+0.538	991 - 268	239.520	238.313	239.555	-2.1	240.46	-2.2	-	-	94.7
Spain	(Pta)	194.208	+0.797	104 - 313	194.373	193.361	194.518	-1.9	195.013	-1.7	196.868	-1.3	81.3
Sweden	(SKr)	10.2545	-0.0172	442 - 648	10.2770	10.2296	10.2587	-0.1	10.2574	-0.1	10.2596	0.0	89.3
Switzerland	(SFr)	1.8986	+0.0056	973 - 998	1.9004	1.8913	1.8924	3.9	1.8795	4.0	1.8219	4.0	111.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.7
Ecu		1.2375	+0.0026	368 - 381	1.2387	1.2327	1.2362	1.3	1.2332	1.4	1.2189	1.4	-
SDR†		1.047600	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5142	+0.0012	129 - 155	1.5178	1.5128	-	-	-	-	-	-	-
Brazil	(R$)	1.5102	+0.0048	098 - 108	1.5127	1.5080	-	-	-	-	-	-	-
Canada	(C$)	2.0718	+0.0014	706 - 727	2.0752	2.0666	2.0711	0.4	2.0675	0.8	2.0594	0.6	84.2
Mexico	(New Peso)	11.2201	-0.0822	118 - 283	11.2735	11.2100	-	-	-	-	-	-	-
USA	($)	1.5153	+0.0012	149 - 157	1.5180	1.5130	1.5145	0.6	1.5131	0.6	1.5091	0.4	96.7
Pacific/Middle East/Africa													
Australia	(A$)	1.8886	-0.0023	875 - 897	1.8947	1.8837	1.8912	-1.6	1.8962	-1.6	1.9215	-1.7	94.3
Hong Kong	(HK$)	11.7235	+0.0095	196 - 273	11.7432	11.7059	11.7154	0.8	11.7036	0.7	11.684	0.3	-
India	(Rs)	52.8083	-0.4124	185 - 011	53.4910	52.4000	-	-	-	-	-	-	-
Israel	(Shk)	4.8840	+0.0087	793 - 886	4.8893	4.8747	-	-	-	-	-	-	-
Japan	(Y)	160.546	+1.611	428 - 664	160.665	158.750	159.821	5.4	158.331	5.5	151.916	5.4	139.7
Malaysia	(M$)	3.7815	+0.0116	787 - 832	3.7866	3.7676	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2001	-0.0014	987 - 015	2.2037	2.1971	2.2051	-2.7	2.2146	-2.6	2.2484	-2.2	107.8
Philippines	(Peso)	39.6251	+0.0182	540 - 962	39.7000	39.5535	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6831	+0.0046	813 - 849	5.6930	5.6745	-	-	-	-	-	-	-
Singapore	(S$)	2.1328	+0.005	315 - 341	2.1355	2.1271	-	-	-	-	-	-	-
South Africa	(R)	6.5499	-0.0667	406 - 592	6.6184	6.5405	-	-	-	-	-	-	-
South Korea	(Won)	1179.13	+0.78	874 - 952	1181.16	1177.42	-	-	-	-	-	-	-
Taiwan	(T$)	41.2056	+0.0538	871 - 240	41.2714	41.1415	-	-	-	-	-	-	-
Thailand	(Bt)	38.2917	+0.0773	664 - 169	38.3220	38.2030	-	-	-	-	-	-	-

† Rates for May 13. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 14		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.8149	+0.0241	124 - 173	10.8180	10.7780	10.7954	2.2	10.7534	2.3	10.5899	2.3	104.5
Belgium	(BFr)	31.6000	+0.076	800 - 200	31.8300	31.4300	31.545	2.1	31.43	2.2	30.89	2.2	106.3
Denmark	(DKr)	5.9305	+0.0065	290 - 320	5.9330	5.9169	5.923	1.5	5.906	1.7	5.837	1.6	106.4
Finland	(FM)	4.7633	+0.0049	598 - 668	4.7652	4.7441	4.7588	1.6	4.7448	1.6	4.6893	1.3	81.7
France	(FFr)	5.1998	+0.013	995 - 000	5.2020	5.1810	5.1928	1.6	5.1786	1.6	5.1108	1.7	108.4
Germany	(DM)	1.5368	+0.0032	365 - 371	1.5380	1.5315	1.5343	2.0	1.5285	2.1	1.5003	2.4	107.4
Greece	(Dr)	243.360	+0.25	270 - 450	243.750	242.670	245.035	-8.3	248.385	-8.3	262.36	-7.8	66.6
Ireland	(I£)	1.5605	-0.0004	600 - 610	1.5646	1.5585	1.5611	-0.4	1.5619	-0.4	1.5634	0.5	-
Italy	(L)	1566.68	+1.43	600 - 735	1567.40	1551.00	1562.73	-4.7	1574.28	-4.5	1616.18	-4.8	75.5
Luxembourg	(LFr)	31.6000	+0.076	800 - 200	31.8300	31.4300	31.547	2.0	31.4405	2.0	30.98	2.0	106.3
Netherlands	(Fl)	1.7179	+0.0038	176 - 182	1.7210	1.7127	1.7146	2.3	1.7074	2.4	1.6757	2.5	106.4
Norway	(NKr)	6.5911	+0.0053	873 - 948	6.5958	6.5745	6.5871	0.5	6.5825	0.5	6.5491	0.7	97.4
Portugal	(Es)	157.810	+0.23	760 - 860	157.960	157.340	158.125	-2.4	158.715	-2.3	160.88	-1.9	94.7
Spain	(Pta)	128.165	+0.425	130 - 200	128.210	127.710	128.415	-2.3	128.845	-2.1	130.385	-1.7	80.9
Sweden	(SKr)	6.7673	-0.0167	623 - 723	6.7881	6.7451	6.7783	-2.0	6.7956	-1.7	6.8378	-1.0	88.4
Switzerland	(SFr)	1.2529	+0.0027	524 - 534	1.2535	1.2484	1.2493	3.4	1.2419	3.5	1.2084	3.5	111.0
UK	(£)	1.5153	+0.0012	149 - 157	1.5180	1.5130	1.5145	0.6	1.5131	0.6	1.5091	0.4	84.0
Ecu		1.2246	-0.0015	242 - 249	1.2288	1.2240	1.2253	-0.7	1.227	-0.8	1.2358	-0.9	-
SDR†		0.69080	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9993	-	987 - 999	1.0001	0.9987	-	-	-	-	-	-	-
Brazil	(R$)	0.9967	+0.0025	965 - 968	0.9970	0.9948	-	-	-	-	-	-	-
Canada	(C$)	1.3673	-0.002	670 - 675	1.3690	1.3646	1.3671	0.1	1.3674	0.0	1.3702	-0.2	83.5
Mexico	(New Peso)	7.4045	-0.047	010 - 080	7.4100	7.3900	7.566	-26.2	7.751	-18.7	8.5145	-26.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.2
Pacific/Middle East/Africa													
Australia	(A$)	1.2463	-0.0025	460 - 467	1.2482	1.2445	1.2483	-1.9	1.2518	-1.8	1.2705	-1.9	95.4
Hong Kong	(HK$)	7.7367	+0.0002	362 - 372	7.7375	7.7360	7.7374	-0.1	7.7392	-0.1	7.7662	-0.4	-
India	(Rs)	34.8500	-0.3	000 - 000	35.3100	34.5500	35	-5.2	35.305	-5.2	38.775	-5.5	-
Israel	(Shk)	3.2231	+0.0032	209 - 253	3.2255	3.2176	-	-	-	-	-	-	-
Japan	(Y)	105.950	+0.98	900 - 000	106.000	104.850	105.505	5.0	104.605	5.1	100.865	4.8	140.5
Malaysia	(M$)	2.4955	+0.0057	950 - 960	2.4965	2.4865	2.4964	-0.4	2.5025	-1.1	2.526	-1.2	-
New Zealand	(NZ$)	1.4518	-0.0021	514 - 524	1.4525	1.4510	1.4549	-2.6	1.4607	-2.5	1.4853	-2.3	-
Philippines	(Peso)	26.1500	-0.01	100 - 900	26.1800	26.1100	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	+0.0001	503 - 507	3.7510	3.7502	3.751	-0.1	3.7517	-0.1	3.756	-0.1	-
Singapore	(S$)	1.4075	+0.0022	070 - 080	1.4085	1.4052	1.404	3.0	1.398	2.7	1.3725	2.5	-
South Africa	(R)	4.3225	-0.0475	175 - 275	4.3700	4.3170	4.3512	-8.0	4.4028	-7.4	4.626	-7.0	-
South Korea	(Won)	778.150	-0.1	100 - 200	778.200	778.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.1930	+0.014	880 - 980	27.1990	27.1750	27.213	-0.9	27.253	-0.9	-	-	-
Thailand	(Bt)	25.2700	+0.031	600 - 800	25.2800	25.2350	25.3687	-4.7	25.5725	-4.8	26.455	-4.7	-

† SDR rate per $ for May 13. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 13: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

May 14	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis rate	Repo rate
Belgium	3 1/4	3 1/4	3 1/4	3 1/4	3 5/16	7.00	2.50	-
week ago	3 5/16	3 1/4	3 1/4	3 1/4	3 5/16	7.00	2.50	-
France	3 1/4	3 23/32	3 25/32	3 7/8	4 1/32	3.70	-	5.60
week ago	3 13/16	3 13/16	3 13/16	3 7/8	4	3.70	-	5.60
Germany	3 1/4	3 1/4	3 1/4	3 5/16	3 1/2	4.50	2.50	3.30
week ago	3 1/4	3 1/4	3 5/16	3 5/16	3 3/8	4.50	2.50	3.30
Ireland	5	5 1/4	5 1/4	5 3/8	5 1/2	-	-	6.25
week ago	5	5 1/4	5 1/4	5 1/4	5 1/2	-	-	6.25
Italy	9 1/32	8 31/32	8 27/32	8 1/2	8 5/16	-	9.00	9.25
week ago	9 1/8	9 1/32	8 29/32	8 21/32	8 1/2	-	9.00	9.32
Netherlands	2 21/32	2 21/32	2 21/32	2 21/32	2 23/32	-	3.00	3.30
week ago	2 23/32	2 25/32	2 23/32	2 25/32	2 29/32	-	3.00	3.30
Switzerland	2 1/8	2 1/16	1 7/8	1 15/16	2 1/16	5.00	1.50	-
week ago	2 1/16	2 1/16	1 7/8	1 7/8	2 1/16	5.00	1.50	-
US	5 1/4	5 3/8	5 3/8	5 1/2	5 3/4	-	5.00	-
week ago	5 1/4	5 3/8	5 3/8	5 9/16	6 1/8	-	5.00	-
Japan	13/32	7/16	17/32	3/4	1	-	0.50	-
week ago	1/2	1/2	19/32	7/8	1 1/16	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 7/16	5 1/2	5 21/32	5 7/8	-	-	-
week ago	-	5 7/16	5 1/2	5 5/8	5 29/32	-	-	-
US Dollar CDs	-	5.10	5.12	5.26	5.60	-	-	-
week ago	-	5.10	5.16	5.31	5.69	-	-	-
ECU Linked Ds	-	4 3/8	4 3/8	4 3/8	4 1/2	-	-	-
week ago	-	4 3/8	4 3/8	4 3/8	4 3/8	-	-	-
SDR Linked Ds	-	3 5/8	3 5/8	3 21/32	3 3/4	-	-	-
week ago	-	3 5/8	3 5/8	3 21/32	3 25/32	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 14	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 3/8 - 3 1/4	3 3/8 - 3 1/4
Danish Krone	4 1/4 - 3 1/2	3 31/32 - 3 3/4	3 15/16 - 3 13/16	3 7/8 - 3 11/16	3 29/32 - 3 25/32	4 1/32 - 3 29/32
D-Mark	3 3/8 - 3 1/4	3 5/16 - 3 3/16	3 3/8 - 3 1/4	3 1/4 - 3 1/8	3 5/16 - 3 3/16	3 5/8 - 3 1/2
Dutch Guilder	2 11/16 - 2 5/8	2 11/16 - 2 5/8	2 11/16 - 2 9/16	2 11/16 - 2 19/32	2 25/32 - 2 21/32	2 7/8 - 2 13/16
French Franc	3 13/16 - 3 11/16	3 27/32 - 3 23/32	3 27/32 - 3 23/32	3 29/32 - 3 3/4	3 15/16 - 3 13/16	4 1/8 - 3 31/32
Portuguese Esc.	7 7/16 - 7 3/8	7 7/16 - 7 3/8	7 3/8 - 7 9/32	7 5/32 - 7 1/8	7 5/32 - 7 1/8	7 5/32 - 7 1/8
Spanish Peseta	7 23/32 - 7 5/8	7 23/32 - 7 5/8	7 3/4 - 7 21/32	7 9/16 - 7 7/16	7 7/16 - 7 9/32	7 13/32 - 7 11/32
Sterling	6 - 5 13/16	6 - 5 7/8	6 1/32 - 5 31/32	6 1/16 - 6	6 7/32 - 6 1/16	6 5/8 - 6 3/8
Swiss Franc	2 1/4 - 2 1/8	2 1/8 - 2	2 1/16 - 1 15/16	2 - 1 7/8	2 - 1 7/8	2 3/16 - 2 1/16
Can. Dollar	4 11/16 - 4 1/2	4 3/4 - 4 5/8	4 3/4 - 4 5/8	4 7/8 - 4 3/4	5 - 4 7/8	5 1/2 - 5 3/8
US Dollar	5 7/16 - 5 5/16	5 7/16 - 5 5/16	5 3/8 - 5 1/4	5 7/16 - 5 1/4	5 9/16 - 5 3/8	5 7/8 - 5 11/16
Italian Lira	10 5/8 - 9 5/8	9 1/8 - 9	9 - 8 27/32	8 13/16 - 8 23/32	8 5/8 - 8 15/32	8 15/32 - 8 11/32
Yen	9/16 - 7/16	7/16 - 11/32	1/2 - 7/16	19/32 - 15/32	13/16 - 11/16	1 1/4 - 1 1/8
Asian $Sing	2 7/8 - 2 3/4	2 9/16 - 2 7/16	2 7/16 - 2 5/16	2 7/16 - 2 5/16	2 7/16 - 2 5/16	2 5/8 - 2 1/2

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.05	96.04	-0.01	96.06	96.02	14,243	51,543
Sep	96.05	96.07	+0.02	96.08	96.04	12,073	52,756
Dec	95.91	95.92	+0.02	95.93	95.90	4,073	30,775

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.78	96.79	+0.01	96.79	96.78	14928	193867
Sep	96.84	96.83	-	96.84	96.82	17171	241103
Dec	96.64	96.64	+0.01	96.65	96.62	18131	203731
Mar	96.33	96.33	+0.01	96.35	96.31	18781	148496

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.40	91.39	+0.01	91.42	91.36	8525	51892
Sep	92.01	91.97	+0.02	92.03	91.96	9494	35004
Dec	92.14	92.13	+0.02	92.17	92.12	4170	25163
Mar	92.11	92.09	+0.01	92.13	92.08	1170	9472

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.05	98.03	-	98.06	98.01	2668	23268
Sep	97.95	97.94	-	97.98	97.92	5749	20948
Dec	97.76	97.73	-	97.76	97.70	1442	11268
Mar	97.49	97.45	-	97.49	97.49	21	5239

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	99.17	-0.02	-	-	0	na
Sep	-	98.88	-0.03	-	-	0	na
Dec	98.56	98.56	-0.05	98.56	98.56	575	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.72	95.71	-	95.73	95.70	1167	9773
Sep	95.78	95.78	+0.01	95.79	95.77	159	4657
Dec	95.64	95.63	+0.01	95.64	95.63	90	3556
Mar	95.43	95.42	+0.01	95.43	95.41	299	2112

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 14		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.77	16.46	4.864	2.028	4927	5.437	20.86	499.4	405.6	21.41	3.966	2.089	4.327	3.164	335.2	2.584
Denmark	(DKr)	53.28	10	8.768	2.592	1.081	2625	2.897	11.11	266.1	216.1	11.41	2.113	1.113	2.306	1.686	178.6	1.377
France	(FFr)	60.77	11.41	10	2.956	1.232	2994	3.304	12.68	303.5	246.5	13.01	2.410	1.269	2.630	1.923	203.7	1.570
Germany	(DM)	20.56	3.858	3.383	1	0.417	1013	1.118	4.288	102.7	83.38	4.401	0.815	0.429	0.890	0.650	68.91	0.531
Ireland	(I£)	49.31	9.254	8.114	2.399	1	2429	2.681	10.29	246.2	200.0	10.56	1.956	1.030	2.134	1.560	165.3	1.274
Italy	(L)	2.030	0.381	0.334	0.099	0.041	100.	0.110	0.423	10.14	8.232	0.435	0.081	0.042	0.088	0.064	6.804	0.052
Netherlands	(Fl)	18.39	3.452	3.027	0.895	0.373	906.3	1	3.837	91.86	74.61	3.938	0.730	0.384	0.796	0.582	61.66	0.475
Norway	(NKr)	47.94	8.998	7.889	2.332	0.972	2362	2.606	10	239.4	194.5	10.26	1.901	1.001	2.075	1.517	160.7	1.239
Portugal	(Es)	20.03	3.758	3.295	0.974	0.406	986.6	1.089	4.177	100.	81.22	4.287	0.794	0.418	0.867	0.634	67.13	0.517
Spain	(Pta)	24.65	4.627	4.057	1.199	0.500	1215	1.340	5.143	123.1	100.	5.278	0.978	0.515	1.067	0.780	82.65	0.637
Sweden	(SKr)	46.71	8.767	7.687	2.272	0.947	2301	2.540	9.743	233.3	189.5	10	1.853	0.976	2.021	1.478	156.6	1.207
Switzerland	(SFr)	25.21	4.732	4.149	1.226	0.511	1242	1.371	5.259	125.9	102.3	5.398	1	0.527	1.091	0.798	84.52	0.651
UK	(£)	47.88	8.986	7.879	2.329	0.971	2359	2.603	9.987	239.1	194.2	10.25	1.899	1	2.072	1.515	160.5	1.237
Canada	(C$)	23.11	4.337	3.803	1.124	0.469	1139	1.256	4.820	115.4	93.73	4.947	0.917	0.483	1	0.731	77.46	0.597
US	($)	31.60	5.931	5.201	1.537	0.641	1557	1.718	6.592	157.8	128.2	6.766	1.253	0.660	1.368	1	105.9	0.817
Japan	(Y)	29.83	5.599	4.909	1.451	0.605	1470	1.622	6.222	149.0	121.0	6.386	1.183	0.623	1.291	0.944	100.	0.771
Ecu		38.71	7.264	6.369	1.883	0.785	1907	2.104	8.074	193.3	157.0	8.286	1.535	0.808	1.675	1.225	129.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6537	0.6523	-0.0014	0.6538	0.6518	15,945	80,618
Sep	0.6570	0.6560	-0.0014	0.6565	0.6555	246	4,285
Dec	0.6598	0.6598	-0.0017	0.6598	0.6598	50	1,103

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8028	0.8013	-0.0014	0.8033	0.8005	9.759	43,479
Sep	0.8030	0.8083	-0.0013	0.8093	0.8030	166	2,196
Dec	0.8155	0.8155	-0.0015	0.8155	0.8155	3	723

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9569	0.9535	-0.0030	0.9582	0.9528	13,371	63,795
Sep	0.9685	0.9649	-0.0029	0.9685	0.9649	303	2,973
Dec	-	0.9791	-	-	-	1	2,050

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5140	1.5154	+0.0016	1.5170	1.5134	6,104	45,146
Sep	1.5130	1.5130	+0.0010	1.5150	1.5130	29	413
Dec	-	1.5130	+0.0024	1.5130	-	2	35

UK INTEREST RATES

LONDON MONEY RATES

May 14	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 1/2 - 5 1/2	6 - 5 7/8	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 3/16 - 6 1/16	6 3/8 - 6 1/4
Sterling CDs	-	-	6 - 5 15/16	6 - 5 15/16	6 1/32 - 5 31/32	6 9/32 - 6 7/32
Treasury Bills	-	-	5 29/32 - 5 27/32	5 13/16 - 5 23/32	-	-
Bank Bills	-	-	5 29/32 - 5 7/8	5 27/32 - 5 13/16	5 27/32 - 5 13/16	-
Local authority deps.	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 1/16 - 6	6 3/16 - 6 1/16
Discount Market deps	6 1/8 - 5 3/4	6 - 5 7/8	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2 1/2	5 1/2	5	5	4 1/4

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/4pc.
Ave. tender rate of discount on May 10, 5.8154pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1996. Agreed rate for period May 26, 1996 to Jun 25, 1996, Schemes II & III 7.33pc. Reference rate for period Mar 30, 1996 to Apr 30, 1996, Schemes IV & V 6.079pc. Finance House Base Rate 6.5pc from May 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.00	93.94	-0.05	94.00	93.93	20304	76611
Sep	93.92	93.87	-0.04	93.93	93.86	16750	60370
Dec	93.67	93.61	-0.04	93.69	93.60	21098	69974
Mar	93.27	93.23	-0.03	93.31	93.24	10669	48428
Jun	92.88	92.83	-0.02	92.90	92.83	4760	39423

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9375	0.21	0.23	0.23	0.02	0.11	0.37
9400	0.04	0.09	0.13	0.10	0.22	0.52
9425	0	0.03	0.07	0.31	0.41	0.71

Est. vol. total, Calls 2775 Puts 2270. Previous day's open int., Calls 140411 Puts 121851

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs.	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk.	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00	* In administration	
●Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	●Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

EMS EUROPEAN CURRENCY UNIT RATES

May 14	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	159.569	+0.204	-1.80	3.18	13
Netherlands	2.15214	2.13822	+0.00096	-0.65	1.99	5
Belgium	39.3960	39.3193	+0.0175	-0.19	1.52	1
Germany	1.91007	1.91266	+0.00068	0.14	1.19	-1
Austria	13.4383	13.4597	+0.0055	0.16	1.17	-1
Portugal	195.792	196.485	+0.397	0.35	0.97	-2
Ireland	0.792214	0.797098	-0.000407	0.62	0.71	-4
France	6.40608	6.47331	+0.00815	1.05	0.27	-9
Denmark	7.28580	7.38250	-0.00135	1.33	0.00	-9
NON ERM MEMBERS						
Greece	292.867	303.084	-0.191	3.49	-2.08	-
Italy	2106.15	1936.92	-10.7	-8.04	10.18	-
UK	0.786652	0.821168	-0.000665	4.39	-2.93	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
1.490	2.51	2.77	3.15	0.17	0.51	0.96
1.500	1.77	2.13	2.51	0.40	0.82	1.32
1.510	1.13	1.54	2.00	0.76	1.22	1.75
1.520	0.65	1.06	1.53	1.29	1.75	2.28
1.530	0.33	0.70	1.14	1.96	2.38	2.83

Previous day's vol., Calls N/A Puts N/A . Prev. day's open int., Calls N/A Puts N/A

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.51	94.52	+0.01	94.53	94.51	37,335	368,271
Sep	94.30	94.34	+0.04	94.35	94.29	31,172	359,087
Dec	94.02	94.08	+0.06	94.10	94.01	60,043	354,739

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.98	95.00	+0.02	95.00	94.98	280	9,619
Sep	94.80	94.81	+0.04	94.83	94.80	47	5,351
Dec	-	94.62	+0.05	94.62	-	10	1,143

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
9675	0.07	0.14	0.16	0.17	0.03	0.06	0.08	0.09
9700	0.01	0.03	0.04	0.06	0.22	0.20	0.21	0.23
9725	0	0	0.01	0.02	0.46	0.42	0.43	0.44

Est. vol. total, Calls 3656 Puts 12103. Previous day's open int., Calls 349104 Puts 374851

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9825	0.01	0.04	0.06	0.23	0.35	0.58
9850	0	0.03	0.02	0.47	0.59	0.79

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 5195 Puts 3071

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9125	0.23	0.79	1.01	0.09	0.07	0.13
9150	0.10	0.59	0.82	0.21	0.12	0.19
9175	0.04	0.41	0.64	0.40	0.19	0.26

Est. vol. total, Calls 1558 Puts 1775. Previous day's open int., Calls 37958 Puts 23151

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£30½	–	£34½	£29½	2,098	2.7	Φ
Barlow	♣	£7⅛	–¼	£10½	£6⅞	1,439	1.8	Φ
Gold Flds Prop R		149xd	+3	170	130	14.3	6.5	10.2
MK Props		75	–	95	75	3.01	13.0	–
SASOL	♥	634	+24	710	475	3,772	1.9	–
SA Brews		£18¼	+1½	£28⅛	£17¼	5,522	1.6	29.2
Standard Bank	□	£24⅜	+⅜	£32¼	£20⅜	2,924	1.7	19.5
Tiger Oats		900	–25	1270	875	1,354	1.8	Φ
Tongaat-Hulett		828	–48	1247	685	783.8	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- ▪ Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✦ USM, not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xS ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Butterfield Management Co Ltd

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

Adams & Neville Fd Mangt (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Lazard Freres Asset Management (CI) Ltd

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Lazard Fund Managers (CI) Ltd

Royal Bank of Canada Intl Money Market Fd

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

Bank of Cyprus Group

M & G (Guernsey) Ltd

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

Bank of Ireland Asset Mangt - Contd.

ISLE OF MAN (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

INVESCO International Limited

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

هكذا من الاصل

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Cradis Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Albany International Assurance Ltd - Contd.

Premier Life

Professional Investment Consultants

Buchanan Capital Management Ltd

CA Securities Investment Fund Mangt Ltd

CB Asset Management

CDC International

Global Asset Management

MBf Unit Trust Managers Limited

The MC Omnia Fund LP

MD Sass Re/Enterprise International Ltd

MFS Meridian Funds

Regent Kingpin Capital Management Ltd

Regis Asset Management

Republic Funds

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales.

(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.

Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(*) - 0001 to 1100 hours
(**) - 1101 to 1400 hours
(***) - 1401 to 1700 hours
(****) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
k - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
H - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price.
GG - Guernsey gross.
♦ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
‡ - Only available to charitable bodies.
Φ - Yield column shows annualised rates of NAV increase.

The fund prices on these pages are also available on the internet at www.FT.com

LONDON STOCK EXCHANGE

MARKET REPORT

Stocks shrug off another assault on utilities

By Steve Thompson,
UK Stock Market Editor

More evidence that inflationary pressures in the US are under control induced another powerful display by Wall Street yesterday and helped a rather reluctant London market to march ahead to close just below the day's best level.

Earlier, London had sprinted higher on a mixture of revived takeover hopes and encouraging news on high street sales, before falling back just ahead of a cautious Bank of England inflation report.

The bank's report had little lasting effect on gilts or equities, however. Gilts ended around the day's highest levels, lifted by a strong performance by US Treasury bonds.

Sentiment in mid-morning was also given a severe testing by another large sell-off in utilities as investors continued to react to the harsh Ofgas review. British Gas remained in the firing line throughout the day, with the shares dropping to 190p, easily the lowest for almost six years, before staging a rally. Electricity and water stocks were roughly handled, as was BT, ahead of its preliminary figures expected tomorrow.

But by the close of trading the *FT-SE 100 index had recaptured all* of its earlier vigour and settled a net 20.5 higher at 3,759.7.

The preponderance of utilities in the second-tier index, the FT-SE Mid 250, weighed heavily on that measure, which was always in the red. It eventually settled 2.6 points off at 4,509.8.

A late story doing the rounds was that a bid for either Royal Bank of Scotland or Standard Chartered was in the offing; there was also a vague suggestion that Lloyds TSB was considering a move against one of the two banks, which would require a heavy fund raising exercise.

Specialists pointed out, however, that Lloyds sold its long held 4.7 per cent stake in Standard Chartered only last year. Dealers said both Scottish banks, and Standard Chartered, remain prime bid targets.

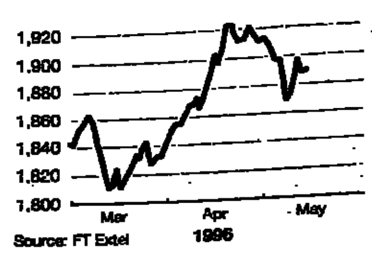
Marketmakers were reassured by Wall Street's latest excellent showing which saw the Dow Jones Industrial Average up some 30 points shortly after the start of trading. The expiry of FT-SE 100 index options on Friday is seen as bullish, with some dealers noting that the market tends to move up strongly ahead of a significant expiry and slip back afterwards.

Economists were happy about the latest US economic news. Mr Richard Jeffrey, group chief economist at Charterhouse Bank, said he thought a rise in US interest rates after next week's Federal Reserve Open Market Committee meeting was "most unlikely". He added: "A rise in US rates might occur this year, but not yet."

PowerGen was one of the market's poorest performers during the morning but raced up late in the day, after it sold its stake in Midlands Electricity. Traders were also encouraged by news that the generator had brought forward its results to today. Rumours were rife that the company was about to unveil a big special dividend.

Turnover in equities at the 6pm count was 780.2m shares, with non-FT-SE 100 index stocks accounting for 51 per cent of the total. Customer business on Monday was worth £1.48bn.

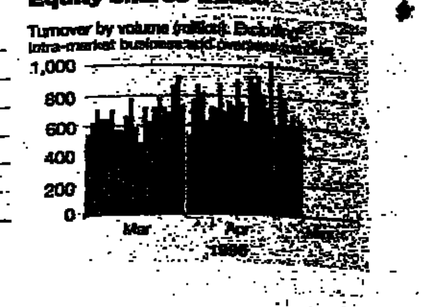
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3759.7	+20.5
FT-SE Mid 250	4509.8	-2.6
FT-SE-A 350	1904.9	+7.8
FT-SE-A All-Share	1890.25	+7.41
FT-SE-A All-Share yield	3.74	3.75

FT Ordinary index	2801.7	+7.2
FT-SE-A Non Fins p/e	17.30	17.27
FT-SE100 Fut Jun	3766.00	+16.50
10 yr Gilt yield	7.98	8.05
Long gilt/equity yld ratio:	2.22	2.23

Best performing sectors

1 Oil: Integrated .... +1.7
2 Extractive Industries .... +1.6
3 Mineral Extraction .... +1.6
4 Retailers: Food .... +1.5
5 Banks: Retail .... +1.2

Worst performing sectors

1 Gas Distribution .... -2.8
2 Utilities .... -1.2
3 Water .... -1.1
4 Electricity .... -1.1
5 Textiles & Apparel .... -0.9

PowerGen payout hopes

News that PowerGen is bringing forward its annual figures, and selling its 80.3m share stake in Midlands Electricity, prompted speculation of a sizeable payout to shareholders.

Sector specialists believe that the company will return between 50p to 100p a share to investors, possibly in the form of a share buyback or special dividend.

However, there was also some concern that the company might be poised to fight against the tougher regulatory climate and appeal to the Monopolies and Mergers Commission over the ruling that it must sell off power stations. Any appeal would be likely to scupper the impending flotation of British Energy.

On balance, the more optimistic view prevailed. Sector specialist Mr Richard Alderman of NatWest Securities said: "I do not think they want to bring forward results by a week just to give out bad news." The shares closed 8 higher at 547p.

Gas again active

Heavy turnover continued in British Gas, with volume boosted by what appeared to be the other side of a tax-related, or "bed and breakfast", deal before official trading began.

Five big blocks of shares, amounting to 42m, were exchanged at 180p a share. They contributed to the day's total of 83m, as the latest salvo from the regulator continued to make its impact.

British Gas fell a further 6 to 195p. Some brokers have been arguing that there is little value in the stock until it comes down to 180p. However, others are beginning to take a more optimistic stance with the stock below 200p a share.

The regulatory fallout spread to other privatised utilities, particularly in the electricity sector. National Grid slipped 6 to 186½p, with SBC Warburg arguing that the Ofgas review "provides plenty of ammunition for Offer (the electricity regulator) to impose a tough review". East Midland Electricity fell 23 to 568p, London 26 to 752p and Yorkshire 27 to 783p.

New low at BT

Telecoms giant BT sank to a new 52-week low as the shake-out at British Gas spilled over into a general witch hunt across the regulated sectors.

The company faces a heavy short-term news flow. It puts out first-quarter results tomorrow, and an Oftel discussion paper on pricing is due shortly, possibly early next month. The shares came off 7 to 326½p in turnover of 14m.

Earlier hopes for some good news on pricing from Oftel have begun to fade fast as a result of the tough stance taken by the regulators of British Gas.

Building materials leader Wolseley bounced strongly. The stock has been held back lately by suggestions that it was about to hit the takeover trail. But a combination of Wall Street strength and encouraging news from the sector spun sentiment around.

The Marley annual meeting gave clear hints of a significant upturn in demand in the second half of this year. There was also said to be good US buying. Wolseley receives some 50 per cent of turnover from North America and the stock jumped to the top of the Footsie ranking with a gain of more than 4 per cent. It closed 18¾ up at 476½p. Marley put on 2 at 147p.

Caradon gained 12 at 236p. Its annual meeting statement was cautious, but there was an obvious relief factor. Mr Howard Seymour, BZW analyst, said the risk of profit downgrades had been substantially reduced.

British Steel came off against the market trend in heavy 18m turnover, following profit downgrades by brokers.

ABN Amro Hoare Govett tweaked lower and there was talk that SBC Warburg had followed suit. The catalyst was an analysts' meeting at joint venture Avesta Sheffield. But some brokers came away content to wait for the British Steel annual results, due on June 17. The stock finished 4 off at 179½p.

An analysts' presentation by Johnson Matthey boosted the shares by 19 to 634p.

General Accident benefited from a well received set of figures and the shares added 19 at 654p. As expected, profits were hit by a spate of bad weather claims but there were pointers that the surplus assets, or orphan estate, were worth around £1bn and the net asset value 651p a share.

Although its results were in line with expectations, Allied Domecq receded 5 to 497p following the meeting with analysts. Some big investors switched to Guinness, which nudged up 3 to 483p. There was profit-taking in Bass, which shed 5 to 785p. Harry Ramsden's, the fish and chip chain, declined 5 to 413p.

Leading oil issues gained on the back of buying in the US and a feeling that UN talks about allowing Iraq to resume oil exports may founder on the issue of sovereignty. BP added 10 at 587p and Shell Transport 14 at 914p.

Royal Bank of Scotland jumped 18 to 536p. There was some talk of a big rights issue by one rival to raise money for a takeover bid. And there was also support from Merrill Lynch.

General investment buying boosted activity among leading food retailing issues.

Shares in Tesco rose 7 to 287p in solid business which brought turnover of 8.7m by the close of the session. UBS, the company's broker, continues to be a fan of the shares, believing it is the cheapest stock within the sector.

J. Sainsbury also put in a solid performance, gaining 9 at 387p in some 4.5m dealt.

However, a combination of general profit-taking and some nervousness ahead of today's final figures from Argyll Group prompted a decline in the stock. The shares lost 2 at 343p. Volume was 4.9m. Analysts expect the group to post profits of around £400m.

Optimism from the British Retail Consortium over a pick-up in high street sales underpinned several stores stocks, particularly the durables chains.

Argos rose 7 to 662p. Dixons, which jumped 12 to 490p, was a major beneficiary, with the consortium specifically mentioning a substantial increase in sales of personal computers. The retailer also benefited from the announcement that the administrators of Powerhouse, the privately owned electrical retailer, were closing 31 stores.

Goldsmiths, the jeweller, rose 12 to 312p following news at its agm that sales were up 11 per cent on a like-for-like basis.

Kleinwort Benson moved from buy to hold on the stock, urging clients to take profits following the recent strong run for the shares. Last month's successful BET takeover saw Rentokil outpace the market by some 15 per cent.

Conglomerate TT Group climbed 12 to a new high of 351p after an upbeat annual meeting statement.

Profits warnings hit Hodder Headline, the publisher, and Wace, the printer. They weakened 36 to 224p and 44 to 223p respectively.

MARKET REPORTERS:
Peter John, Joel Kibazo,
Jeffrey Brown, Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	May 14	May 13	May 10	May 9	May 8	Yr ago	*High	*Low
Ordinary Share	2801.7	2794.5	2812.6	2784.5	2772.0	2509.9	2885.2	2696.7
Ord. div. yield	3.96	3.98	3.96	4.00	4.02	4.22	4.06	3.78
P/E ratio net	16.48	16.42	16.48	16.35	16.26	16.24	17.25	15.96
P/E ratio nil	16.25	16.19	16.25	16.12	16.03	16.04	17.03	15.76

Ordinary Share index since compilation: high 2885.2 18/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2802.8	2805.6	2802.4	2797.3	2798.4	2799.3	2801.6	2799.7	2801.5	2807.6	2796.0

	May 14	May 13	May 10	May 9	May 8	Yr ago
SEAQ bargains	32,985	34,710	31,942	31,222	32,021	25,095
Equity turnover (£m)†	-	1482.8	1977.4	1792.1	1624.0	1566.6
Equity bargains†	-	39,918	37,877	38,242	38,110	37,610
Shares traded (ml)†	-	623.2	649.5	619.8	676.6	625.0

†Excluding intra-market business and overseas turnover.

	May 14	May 13	May 10	May 9	May 8	Yr ago	*High	*Low
FT-SE AIM	1073.50	1066.60	1065.10	1065.10	1072.60	-	1075.00	985.58

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	823	Total Highs	185	Total contracts	49,832
Total Falls	446	Total Lows	22	Calls	18,290
Same	1,489			Puts	31,542

May 14 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3764.0	3766.0	+16.5	3773.0	3752.0	11061	57635
Sep	3780.5	3781.0	+16.0	3780.5	3770.0	428	5778
Dec	-	3811.0	+16.5	-	-	0	237

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	4510.0	-10.0	-	-	0	4141

■ FT-SE 100 INDEX OPTION (LIFFE) (*3766) £10 per full index point

	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3575	3625	3675	3725	3775	3825	3875
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 5,082 Puts 6,145 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	May 14	% chg on day	May 13	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ Regional Indices								
Africa (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australasia (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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FT - SE Actuaries Share Indices — The UK Series

	May 14	Day's chge%	May 13	May 10	May 9	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3759.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	4509.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250 ex Inv Trusts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	1904.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350 Higher Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350 Lower Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap ex Inv Trusts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A ALL-SHARE	1890.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FT-SE Actuaries All-Share

	May 14	Day's chge%	May 13	May 10	May 9	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pharmaceuticals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks, Retail	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. "The FT-SE Actuaries Share Indices are calculated by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. © FT-SE International Limited 1996. All rights reserved. [illegible]

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are included. Source: FT Extel.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 14 / Sch)

BELGIUM/LUXEMBOURG (May 14 / Frs.)

CZECH REP (May 14 / Koruna)

DENMARK (May 14 / Kr)

FINLAND (May 14 / Mks)

FRANCE (May 14 / Frs.)

GERMANY (May 14 / Dm.)

GREECE (May 14 / Drachma)

ITALY (May 14 / Lira)

NETHERLANDS (May 14 / Fls.)

NORWAY (May 14 / Kroner)

POLAND (May 14 / Zloty)

PORTUGAL (May 14 / Escudo)

SPAIN (May 14 / Pts.)

SWEDEN (May 14 / Kronor)

SWITZERLAND (May 14 / Frs.)

TURKEY (May 14 / TK Lira)

PACIFIC

JAPAN (May 14 / Yen)

HONG KONG (May 14 / H.K.$)

INDONESIA (May 14 / Rupiah)

MALAYSIA (May 14 / MYR)

NEW ZEALAND (May 14 / NZ $)

SINGAPORE (May 14 / S$)

AUSTRALIA (May 14 / Aus$)

SOUTH KOREA (May 14 / Won)

TAIWAN (May 14 / TW $)

THAILAND (May 14 / Baht)

AFRICA

SOUTH AFRICA (May 14 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 14 / Can $) 4 pm close

MONTREAL (May 14 / Can $) 4 pm close

INDICES

	May 14	May 13	May 10	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	18061.40	17768.02	18191.58	31/1	16028.81	19/3
Australia							
All Ordinaries(1/1/80)	2261.8	2258.9	2257.4	2326.00	26/4	2187.40	11/3
All Mining(1/1/80)	1085.5	1087.6	1090.7	1118.40	8/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	379.51	378.14	379.31	387.24	25/4	352.78	2/1
Traded Index(2/1/91)	1108.99	1099.49	1100.47	1131.21	26/4	975.27	2/1
Belgium							
BEL20(1/1/91)	1719.75	1710.17	1706.18	1755.71	7/3	1574.80	2/1
Brazil							
Bovespa(29/12/83)	(u)	54802.0	53455.0	54109.00	2/2	43901.00	2/1
Canada							
Metals Minls♦(1975)	(u)	5586.61	5596.94	5624.80	8/5	4687.47	16/1
Composite♦(1975)	(c)	5191.10	5178.80	5178.81	10/5	4739.70	15/1
Portfolio§§(4/1/83)	(c)	2538.02	2520.33	2520.33	10/5	2327.39	12/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5573.82	5598.04	5804.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	399.68	400.02	400.02	400.83	8/5	368.40	2/1
Finland							
HEX General(28/12/90)	1986.94	1946.97	1940.74	1986.08	8/5	1651.67	10/1
France							
SBF 250(31/12/90)	1441.38	1431.80	1436.52	1453.88	30/4	1250.18	2/1
CAC 40(31/12/87)	2122.08	2100.85	2114.80	2148.79	30/4	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	887.70	882.37	873.00	902.33	23/4	818.58	2/1
Commerzbank(1/12/53)	2556.7	2540.2	2513.2	2601.90	23/4	2370.20	2/1
DAX‡(30/12/87)	2519.73	2498.17	2468.78	2550.18	23/4	2284.86	2/1
Greece							
Athens SE(31/12/80)	919.33	926.05	924.90	1017.96	4/3	901.63	29/4
Hong Kong							
Hang Seng(31/7/64)	10817.86	10746.00	10597.73	11594.99	16/2	10204.87	2/1
India							
BSE Sens.(1979)	3810.13	3750.37	3694.39	3868.87	24/4	2828.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	618.02	621.49	619.28	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2536.00	2531.01	2526.97	2538.08	1/5	2234.81	2/1
Italy							
Banca Comm Ital(1972)	686.95	683.39	656.86	686.95	14/5	572.21	23/3
MIB General(2/1/86)	1131.0	1125.0	1114.0	1131.00	14/5	970.09	27/3
Japan							
Nikkei 225(16/5/49)	21301.05	21171.82	21420.12	22282.05	24/4	19734.70	13/3
Nikkei 300(1/10/82)	305.38	303.13	305.91	318.06	26/4	284.48	11/3
Topix(4/1/68)	1652.01	1643.1	1657.94	1718.80	26/4	1524.12	13/3
2nd Section(4/1/68)	2193.90	2208.43	2223.52	2243.28	2/5	1982.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1163.99	1163.96	1160.06	1189.54	30/4	993.18	2/1
Mexico							
IPC(Nov 1978)	(u)	3250.78	3216.14	3284.48	19/4	2736.38	8/3
Netherland							
CBS TtlRtnGen(End 83)	626.9	622.3	621.6	626.90	14/5	539.58	2/1
CBS All Shr(End 83)	375.1	372.3†	372.0	375.10	11/5	326.70	2/1
New Zealand							
Cap. 40(1/7/86)	2082.64	2114.29	2111.49	2203.06	4/1	2044.71	24/1
Norway							
Oslo SE(Ind)(2/1/83)	1414.14	1416.93	1414.11	1444.72	29/4	1259.68	30/1
Philippines							
Manila Comp(2/1/85)	3126.90	3117.05	3111.43	3129.08	9/5	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1818.73	1834.76	1840.24	1851.49	7/5	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	582.88	585.05	581.06	610.37	5/2	553.89	2/1
South Africa							
JSE Gold(28/9/78)	2000.3♥	1986.5	2001.3	2011.20	9/5	1346.40	2/1
JSE Ind.(28/9/78)	7994.9♥	7913.4	7821.1	8738.30	25/1	7755.88	9/5
South Korea							
KoreaCmpEx**(4/1/80)	964.15	978.73	965.83	988.84	7/5	838.87	13/3
Spain							
Madrid SE(30/12/85)	357.10	356.62	356.14	361.78	26/4	323.75	11/1
Sweden							
AffarsvardnGen(1/2/37)	1970.3	1953.3	1958.3	1970.30	14/5	1705.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1729.98	1718.41	1714.52	1779.54	26/4	1516.19	17/1
SBC General(1/4/87)	1227.77	1220.70	1219.52	1259.89	26/4	1114.47	26/1
Taiwan							
WeightedPr.**(30/6/66)	6155.83	6127.19	6035.21	6182.70	29/4	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	1319.26	1324.50	1322.62	1415.04	8/2	1247.79	13/3
Turkey							
Istanbul Cmp.(Jan 1986)	67768.5	67704.4	67241.6	72086.80	8/4	38779.30	2/1
WORLD							
MS Capital Int(1/1/70)	772.3*	769.9	767.3	779.40	29/4	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1676.81	1668.58	1657.69	1692.57	26/4	1504.40	11/1
Euro Top-100(26/6/90)	1444.33	1436.0	1437.93	1458.28	29/4	1333.81	11/1
HSBC JC Drgn(31/12/88)	(u)	377.24	374.12	383.18	16/4	344.19	2/1
ING Brngs Emrg(7/1/92)	164.14	163.09	162.39	164.14	14/5	147.35	2/1

US INDICES

Dow Jones	May 13	May 10	May 9	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5582.60	5518.14	5475.14	5689.74 (3/4)	5032.94 (10/1)	5689.74 (3/4/96)	41.22 (2/7/32)
Home Bonds	101.34	101.25	101.03	106.09 (14/2)	101.18 (8/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2225.81	2187.92	2171.60	2225.81 (13/5)	1882.71 (18/1)	2225.81 (13/5/96)	12.32 (8/7/32)
Utilities	213.32	211.78	210.03	234.80 (13/2)	205.42 (7/5)	256.48 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5601.80 (5559.88) Low 5495.42 (5478.03) (Theoretical♦)
Day's high 5587.40 (5533.87) Low 5516.47 (5477.87) (Actual♦)

Standard and Poors	May 13	May 10	May 9	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	661.51	652.09	645.44	661.51 (13/5)	598.48 (10/1)	661.51 (13/5/96)	4.40 (1/6/32)
Industrials♥	785.26	772.88	766.45	785.26 (13/5)	702.07 (15/1)	785.26 (13/5/96)	3.62 (21/6/32)
Financial	66.07	65.43	64.16	68.56 (5/3)	58.67 (10/1)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	354.33	350.02	346.61	354.33 (13/5)	321.41 (10/1)	354.33 (13/5/96)	4.46 (25/4/42)
Amex Mkt Val	597.25	591.33	587.21	597.25 (13/5)	529.05 (18/1)	597.25 (13/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1221.87	1202.76	1187.83	1221.87 (13/5)	988.57 (15/1)	1221.87 (13/5/96)	54.87 (31/10/72)

■ RATIOS

	May 10	May 3	Apr 26	Year ago
Dow Jones Ind. Div. Yield	2.20	2.21	2.17	2.47
	May 8	May 1	Apr 24	Year ago
S & P Ind. Div. yield	1.92	1.86	1.87	2.22
S & P Ind. P/E ratio	21.26	21.60	21.43	18.70

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Hillsource	11,208,500	24¼	-7¾
K-Mart	4,984,300	10⅝	+½
AT & T	4,515,400	62⅞	+1
Micron Tech	4,710,500	34¼	+1⅛
Guangshen	4,372,600	20⅛	+1¼
Home Depot	4,353,200	52	+2½
Coca Cola	4,124,900	43	+1⅝
LSI Logic	3,824,200	37⅜	+3⅝
Bay Network	3,496,700	35⅝	+⅜
Stargard Str	2,594,500	25⅛	----

■ TRADING ACTIVITY

● Volume (million)	May 13	May 10	May 9
New York SE	394.159	428.363	403.712
Amex	26.659	25.861	25.810
NASDAQ	611.793	621.429	650.883
NYSE			
Issues Traded	3,137	3,145	3,118
Rises	1,689	1,715	1,331
Falls	701	717	980
Unchanged	747	713	807
New Highs	158	120	71
New Lows	8	8	18

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
May	2108.0	2112.5	+21.0	2120.0	2102.0	15,416	31,363
Jun	2085.0	2092.0	+20.5	2098.0	2082.5	926	30,734
■ DAX							
Jun	2508.0	2531.0	+37.0	2534.0	2503.5	23,447	-
Sep	2524.0	2549.5	+35.5	2550.0	2524.0	239	-
■ OMX							
Apr	-	1518.00	-	-	-	-	-
May	-	1510.50	-	-	-	-	-
■ SOFFEX							
May	3560.3	3584.0	+34.0	3589.0	3560.3	10,046	14,168
Jul	3533.0	3565.0	-	3533.0	3533.0	21	627

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	663.80	666.15	+2.40	667.00	666.15	77,741	183,242
Sep	660.00	671.85	+2.50	672.70	671.85	1,421	13,258

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	21260.0	21270.0	+80.0	21370.0	21180.0	20,812	265,667
Sep	21330.0	21380.0	+60.00	21400.0	21280.0	479	17,812

Open interest figures for previous day.

~~ Sat May 11: Taiwan Weighted Price 6145.77; Korea Comp Ex 970.64. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 14 – 2529.20 +31.87.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, May 14, 1996.

	Stocks Traded	Closing Prices	Change on day
Asics Corp	4.2m	405	
Nagasakiya	4.0m	800	+13
Dai-Ichi Katei	4.0m	597	+24
Toshiba Corp	3.3m	784	+7
Copal	3.3m	1,010	+106
Nippon Steel	3.3m	360	+3
NKK	2.9m	312	+2
Mitsubishi Hvy	2.8m	915	+13
Kobe Steel	2.6m	314	+3
Nichiboshin	2.5m	[illegible]	[illegible]

Prices supplied by Telekurs

FT FREE ANNUAL REPORTS SERVICE

4 pm close May 14

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22½	19⅛	AAR	0.48	2.1	24	945	u22½	21½	22½	+1
46⅛	36⅜	AMP x	1.00	2.4	21	3761	42½	41½	42⅜	+⅛
94	66	AMR			22	5497	92⅛	91⅛	91⅛	-⅞
50½	37⅜	ASA	1.80	3.9	30	548	46	45½	45¾	-⅛
44¾	38⅛	AbbtL	0.86	2.4	16	10919	40⅞	40¼	40½	-⅜
17¼	13⅝	AbtiBbl Pr	0.40	2.8	7	808	14¼	14⅛	14¼	+⅛
35⅞	27	ABM Ind	0.70	2.0	18	4	35¼	35⅛	35¼	-⅛
16⅜	13⅞	Acptocein			43	208	u16⅜	16⅛	16⅜	+⅛
60⅝	37¾	ACE Ltd	0.56	1.3	10	1282	44	42¾	43½	-⅞
9⅞	9⅛	ACM Gvt In x	0.90	9.4	8	509	9¾	9⅝	9⅝	
7⅞	6⅝	ACM GvOpp x	0.57	8.3		46	7	6⅞	6⅞	
7¼	6¼	ACM Gvt Sp x	0.66	10.2		112	6½	6⅜	6½	+⅛
9⅛	8¼	ACM Gvt Se x	0.90	10.6		203	8⅝	8½	8½	
9½	8¾	ACM Man x	0.90	10.0		188	9⅛	9	9	
30¾	16½	AcmeClv x	0.52	1.7	7	163	30¼	30	30⅛	+¼
13⅞	6⅛	Acme Elect			66	1718	12¾	11½	12¼	+¾
32½	27¾	Acordia	0.72	2.3	19	41	32	31⅞	31⅞	-⅛
21⅞	12	Acuson			93	2367	u21⅜	20½	20½	-¾
19½	16⅜	Adams Expr	1.66	8.7	0	490	19	18⅞	19	
21¼	16⅛	AdaMlc			7	4809	18¾	18⅜	18¾	-⅛
11⅛	8½	Advest Grp	0.16	1.5	7	21	10⅞	10¾	10⅞	
26⅛	9⅛	Advo Inc	0.10	0.9	63	512	11¾	11⅜	11⅜	-¼
50⅜	41⅛	Aegon	1.23	2.5	15	701	49⅞	49⅝	49⅞	+½
5½	3½	Aerflx			3	357	5⅜	5¼	5⅜	+⅛
78¾	66⅜	AetnaL	2.76	3.9	18	6801	71⅜	69⅞	71	+⅞
33	28¾	Aflac	0.40	1.3	13	7209	32	31⅜	31⅞	+⅜
20⅜	17½	AGL Res	1.06	5.8	16	277	18⅜	18⅛	18¼	
26¾	21¼	Ahmson x	0.88	3.6	7	11669	25	24⅛	24⅝	+¼
59¼	50⅜	AirPrC	1.04	1.8	15	4028	58⅝	57¾	58½	+¾
28⅜	23½	Airbrne Frt x	0.30	1.2	24	318	26⅜	25⅞	26	+⅛
22½	15½	Airgas Inc			35	639	21¼	20¼	21⅛	+1

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NYSE PRICES

Continued from previous page

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
53⅜	50½	SchrPl	1.32	2.3	22	6593	57⅝	56½	56⅞	
91⅞	65⅜	Schlmb	1.50	1.7	31	7634	89⅛	87⅝	88½	+1⅛
14½	9⅝	Schlr			3	1703	10⅞	10⅝	10¾	
27⅞	18⅝	Schwab(C)	0.16	0.6	24	6054	24⅞	24½	24⅞	-⅞
28⅞	22¾	SchwMaud x			14	352	27¼	26⅞	27	-¼
13¾	13⅛	SciAtl	0.06	0.3	49	1668	19½	19⅛	19⅛	-¼
20¼	17	Scotsmn	0.10	0.5	12	64	u20¼	20	20⅛	-¼
43½	38⅛	Scripps	0.52	1.2	25	463	42⅞	42⅝	42⅞	+⅛
18⅛	14½	ScuddrNAsF	0.02	0.1		108	15½	15¼	15⅜	-⅛
12½	11	ScuddrNEuF	0.16	1.3		139	12¼	12½	12⅛	
19⅛	16	SeaCnB	0.70	3.8	2	10	18⅝	18⅝	18⅝	-¼
16	15⅛	SeaC1.4625	1.46	9.5		13	15⅝	15⅜	15⅜	-⅛
67¾	44¾	S'gate			22	15653	57⅝	56⅛	57¼	+1⅜
38⅛	31¾	Seagrm	0.60	1.8	23	3654	34¼	33¾	34⅛	+½
24⅝	17⅛	Seagull En			15	650	23¼	23	23¾	-¼
38⅛	28	Sealed Air			26	951	35½	34⅝	35⅜	+⅜
53¼	38¼	SearsR	0.92	1.8	14	13962	51¾	50½	50⅝	-⅛
22¼	19¼	SecCapSBI x	1.24	5.8	21	2018	21½	21⅛	21½	-¼
13	11⅞	Seligm Sel	0.84	6.7		20	12¾	12⅝	12⅝	
23¾	13⅞	Sensormat x	0.22	1.1	17	6618	20⅛	19¼	20⅛	+1
35¾	29½	SequaA	0.60	1.7	92	73	35½	35	35¼	+¼
42⅛	38	SequaB	0.50	1.2	110	42	u42⅛	41	42	
54⅞	38⅞	ServCp	0.46	0.9	28	3954	u54⅞	54⅛	54⅝	-⅛
33½	29⅛	SvMstr	1.02	3.1	14	316	33¼	32¼	32⅝	-⅛
6	4½	ServMerch			10	3457	5⅜	5⅛	5¼	-⅛
48¼	28½	SGSThm			10	1427	46¾	45¾	46¾	-⅛
15⅛	10⅝	Shaw Ind x	0.30	2.4	38	1418	12¾	12½	12¾	+⅛
12⅞	10⅝	Shelby WB	0.28	2.3	14	50	12⅛	12	12	
85	76⅝	ShellTr	3.30	3.9	17	3508	u85	83½	84¾	+1⅞
46⅞	39	SherW	0.70	1.5	19	1658	45⅞	45½	45¾	-⅛
13⅞	7⅞	Shoneys			14	2616	13¼	12⅞	13	-⅛
33⅝	21	Showboat	0.10	0.3	38	469	30¼	32⅝	32¾	
25½	22¾	Sierra Pac	1.18	4.9	12	239	24⅜	24⅛	24⅛	

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s
49⅛	30½	Tektrnx	0.60	1.5	13	1551
30½	23⅝	TeleDa x	0.83	3.6	10	1403
40⅛	24	Teldyn x	0.74	1.8	14	2045
53⅝	42¾	TeleEspSA	1.37	2.6	19	600
38¼	28¾	Telmex	0.92	2.7	11	27840
49⅝	38⅞	Templnl	1.20	2.4	10	4371
21⅞	18½	TempltEmMk	0.27	1.3		191
7¼	6¾	TempltGlob	0.60	8.7		75
7½	6¾	TempltGFd x	0.60	8.6		557
58½	47⅞	Tenneco	1.80	3.2	8	3841
38¼	34⅛	Teppco Pts	0.28	0.7	11	87
27⅝	16	Teradyne			9	6913
8¼	4⅛	Terex	0.06	0.8	2	139
14¼	11	Terra Inds	0.16	1.2	7	937
11½	8	Tesoro			4	1294
88¾	75½	Texaco x	3.20	3.8	34	8481
69¼	50¼	Texas Ind	0.40	0.6	10	322
59⅝	42¾	TxInst	0.68	1.2	10	13012
32½	25⅝	Texas Pac	0.40	1.3	29	35
42⅞	38½	TxUtl	2.00	4.8	106	3074
3	2¼	Textl Inds	1.10	44.0	2	282
89	69⅛	Textrn	1.76	2.1	18	1255
5½	3½	Thackeray			10	46
17	13¾	Thai Cap	1.90	13.0		88
27¾	21⅝	Thai Fund	0.11	0.5		558
63⅞	45⅝	ThrmoElec	0.12	0.2	35	1261
44⅝	32⅞	Thiokl	0.68	1.6	7	340
40½	35½	ThBett	1.12	2.8	19	1107
23⅞	19¼	Thomas Ind	0.40	1.9	18	32
25½	21½	360 Comm		231	5630	

\- T -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s
44⅝	29¾	Tandy	0.50	1.2	34	2949

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Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

FT Free Annual Reports Service

AMEX PRICES

4 pm close May 14

NASDAQ NATIONAL MARKET

4 pm close May 14

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AMERICA

Further data bolster rise in equities

Wall Street

US share prices were higher in midsession trading following the publication of economic data which showed that inflationary pressures remained in check, *writes Lisa Bransten in New York.*

At 1 pm the Dow Jones Industrial Average was 25.11 stronger at 5,607.71, the Standard & Poor's 500 had risen 2.82 to 664.33 and the American Stock Exchange composite had gained 1.97 at 599.23. Volume on the NYSE came to 270m shares.

Investors in both the stock and bond markets welcomed the weaker than expected figures on both the consumer price index and retail sales. In early trading, the yield on the benchmark 30-year Treasury bond fell below 6.9 per cent for the first time in two weeks.

That helped ease the fears of equity investors who had been worried that rising long term interest rates would hurt profit growth and attract money out of equities and into bonds.

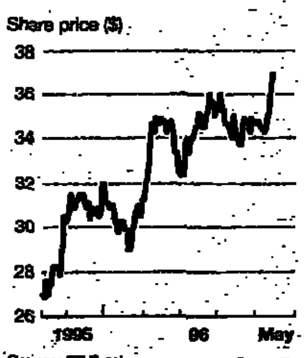
Technology shares continued recent gains: by early afternoon the Nasdaq composite was up 9.10 at 1,230.97, on course to set a third consecutive record high. The Pacific Stock Exchange technology index had added 0.4 per cent.

One of the fastest moving technology shares was 3Do, the entertainment software company, which surprised analysts by reporting a fourth quarter profit of 4 cents a share, compared with the 2 cents a share loss most had expected. The shares jumped $2¼ or 22 per cent to $12⅝ in early trading.

Corning advanced $2¼ or 6 per cent to $37¼ after the company said that its board had approved a plan to spin off its clinical laboratories and pharmaceutical services businesses into two publicly traded companies.

MedPartners/Mullikin, a physician-management company, slipped $¾ to $25¼ after announcing that it had agreed to buy a competitor, Caremark, in a deal valued at about $2.5bn. Caremark rose $1¼ to $29¾. ValuJet recovered $1⅛ of the $4⅜ it had surrendered on Monday in the wake of the crash of the airline's DC-9 in Florida. The rebound brought the shares to $15.

Corning



Source: FT Extel

Canada

Toronto was higher at midsession, above the key 5,300 level, prompting expectations that the market could be heading for a record close.

The TSE-300 composite index had risen 16.23 by noon at 5,207.30 in volume of 48.7m shares.

The market regained momentum on Monday when investors discounted a possibility that the Quebec separatist government would call a snap election and initiate a new independence referendum.

Imperial Oil jumped C$1.10 to C$58.10 on growing expectations that the cash rich oil company would repurchase a hefty tranche of its own stock.

The Vancouver based Black Swan Mines was again actively traded, after announcing promising exploration results, but it gave up an early 3-cent advance by noon to trade flat at C$1.13.

Mexico City easier

Mexico City saw foreign demand push the equity market higher at the opening, but the rise was not sustained by midsession. At midday the IPC index was off 8.62 at 3,242.16. Brokers had said earlier that foreign institutions had been buying the market following the release of satisfactory domestic inflation data.

SAO PAULO, waiting for today's first-quarter results from Telebras, saw the Bovespa index down 455.95 at 54,346 at midsession.

Telebras preferred, which represents more than 40 per cent of the Bovespa index, had climbed some 4 per cent on Monday as rumours circulated that the company's first-quarter profits, previously estimated at between $400m to $600m, could be even better.

BUENOS AIRES was up nearly 1 per cent by midsession following positive reaction to US consumer price data. The Merval index was standing 5.38 firmer at 583.56.

Analysts noted that while leading stocks remained popular, there had been a growing interest in smaller capitalised issues.

● UBS Securities yesterday downgraded Brazil to neutral from overweight and raised Argentina's position in its Latin American equities portfolio to overweight from neutral.

UBS also upgraded Peruvian stocks to neutral from underweight and kept Mexico overweight.

South African industrials rise

Industrials received encouragement from the release of US consumer price data, while gold shares only managed a marginal rise as the price of bullion stayed steady.

The overall index added 50.2 at 6,844.3, the industrials index gained 81.5 or 1 per cent at 7,994.9 and the golds index improved 13.8 to 2,000.3.

De Beers lost 75 cents to R143.50. Anglos rose R6 to R290, SA Breweries made R4.75 to R123.25, Richemont added R1 at R63 and Amcoal fell R2 to R308.

Other movements included Vaal Reefs, up R1 at R447, and Dries, off 25 cents at R67.25. Amgold declined R1 to R445.

EUROPE

Renault shares fall as Paris bourse gains ground

The publication of US consumer price data during the afternoon lifted PARIS, but there was also a stream of corporate news to keep investors interested. The CAC-40 index rose 21.23 to 2,122.08 in good turnover of FFr5.3bn.

Canal Plus, the pay television group, climbed FFr19 to FFr1,234 on an 8 per cent rise in first-quarter sales; the company also said the number of subscribers in the first quarter of 1996 had risen by more than 13 per cent.

Scor, the insurer, gained ground following a presentation to analysts on Monday. There was a perception that the stock remained undervalued in relation to its European competitors, and the shares put on FFr16.60 at FFr207.90.

Renault, however, dropped FFr1.90 to FFr148 on the government's plan to reduce its stake in the vehicle manufacturer from 51 per cent to 46 per cent. The state said this would be done through a private placement, rather than a share issue, and some analysts thought the placement would be at a discount to the current market price.

Docks de France, the retailer, lost FFr116 or 11 per cent to FFr981 as Auchan, the privately owned hypermarket operator, said it had taken an 11 per cent stake, effectively blocking any hostile takeover bid for the quoted group.

FT-SE Actuaries Share Indices

May 14						THE EUROPEAN SERIES		
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1674.68	1674.57	1675.27	1673.67	1676.12	1677.26	1678.61	1678.81
FT-SE Eurotrack 200	1721.68	1720.20	1719.76	1720.19	1723.02	1723.55	1724.00	1725.86
	May 13	May 10	May 9	May 8	May 7			
FT-SE Eurotrack 100	1666.58	1657.88	1652.44	1654.88	1666.25			
FT-SE Eurotrack 200	1714.81	1712.80	1704.49	1669.30	1708.91			

Base value 1000 (26/10/90) High/day: 100 - 1679.26; 200 - 1725.86 Low/day: 100 - 1673.67 200 - 1719.15 † Partial

Eiffage, the construction group, was suspended temporarily, limit down during the day as *doubts surfaced about* its 1995 property provisions. On requotation the stock ended with a loss of FFr82 or 10 per cent at FFr736. But there was a better story from its fellow building industry stock *Lafarge, which benefited from* a broker's upgrade and closed FFr9.70 higher at FFr330.70.

FRANKFURT's Dax index acknowledged both the dollar and stronger bunds as it closed 31.87 or 1.3 per cent higher at an Ibis-indicated 2,528.20 in turnover of DM8.9bn.

Individual themes moved both stocks and sectors, said Mr Hans-Peter Wodniok at Crédit Lyonnais in Frankfurt. Adidas anticipated big product exposure, *both in the forthcoming* Olympics and in the European soccer championships, and rose DM6 or 5.1 per cent to DM124.

In cyclicals, chemicals outpaced carmakers with BASF and Hoechst both up by more than 2 per cent. Here, said Mr Wodniok, there were signs that product prices, depressed since last summer, were not only stabilising but improving.

In utilities, the baton passed from Veba to RWE and Viag, *which closed DM1.60 and* DM8.80 higher at DM59.45 and DM583.30 on the theory that the substantial cash flow in electricity generation, invested in telecoms, would pay off when the German telecoms market is liberalised in 1998.

AMSTERDAM featured an 11 per cent rise in sales for Ahold, the supermarket operator, during the first four months of the year, and the shares moved ahead Fl 1.60 to Fl 87.40. There *was also an upgrade on the* stock from J.P. Morgan.

The AEX index rose 2.24 to 557.91. Royal Dutch rose Fl 5.10 to Fl 255.40, some brokers citing follow-through enthusiasm *following the oil group's better* than expected first-quarter earnings last week.

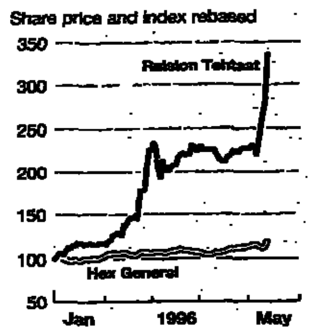
ZURICH found support in the US economic data and the view that some stocks had been oversold, and the SMI *index picked up 34.8 to 3,583.4.*

A SFr6.25 rise in SBC to SFr228.75 was attributed to analysts' recommendations, while Baloise, the insurer, added SFr65 at SFr2,840, profiting from unconfirmed takeover speculation.

Esec, which makes specialised equipment for the semi-conductor industry, climbed SFr65 to SFr4,775 on a 71 per cent rise in group net profits. The shares were among last *year's star performers, rising* more than 250 per cent in the seven months to January 8, when they stood at SFr5,625.

OSLO was dominated by the listing of the demerged energy and drug companies Hafslund and *Nycomed. Hafslund made* a better price than expected, the A and B shares closing at NKr56.50 and NKr49 respectively. Nycomed started worse than anticipated, but rose in afternoon trade to finish at *NKr141 and NKr133.50.*

Raisio



Source: FT Extel

The total index ended virtually flat, down 0.03 at 831.03. Turnover shot up to about NKr1.9bn, 90 per cent higher than on Monday, and with Hafslund accounting for more than NKr1bn.

MILAN was lifted by hopes that the prime minister designate, Mr Romano Prodi, would announce his new government by the weekend, and that the caretaker premier, Mr Lamberto Dini, was completing a slightly higher than expected L12,000bn mini-budget. The Comit index rose 3.56 to 666.95.

Montedison ran into profit-taking after the group said late on Monday that it would resist *any rebel shareholder attempt* to break it up. The shares fell back to L953 in early trade before picking up to finish L0.1 higher at L969.1.

MADRID was relatively flat, the general index closing just 0.48 higher at 357.10. One reason was a Pta135 fall to Pta4,415 in Repsol, the oil major, on disappointing results and government plans to sell a 10 per cent stake.

HELSINKI saw a remarkable performance from Raisio, which peaked at FM243, up FM29, dropped to FM211 on a one-for-five, deep discount rights issue, then climbed all the way back to close at FM243 again on the international enthusiasm for its Benecol cholesterol-reducing margarine. The Hex index rose 19.96 to 1,996.94.

WARSAW fell for the third consecutive session, the Wig index closing off 1.8 per cent at 12,500. Espebepe, the construction group, slid 10 per cent on the beginning of its debt restructuring proceedings.

Elsewhere in the sector, Elektromontaz Export and KPBP Bick started trading on the main market, having transferred from the secondary market, and showed respective falls of 4.8 and 4.9 per cent.

Written and edited by William Cochrane, Michael Morgan and John Pitt

ASIA PACIFIC

Bargain hunters move in Tokyo, Bombay up 1.6%

Tokyo

The overnight rally on Wall Street and a decline in short term interest rates lifted investor sentiment and share prices closed moderately higher on bargain hunting, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 average rose 129.23 to 21,301.05 after moving between 21,174.24 and 21,311.39. An improved outlook for short term rates helped the futures market, prompting technical buying. In the afternoon session, domestic institutions chased large blue chips.

Volume, however, totalled 291m shares against 326m as overseas investors who had been inactive over the previous few days stayed on the sidelines. Traders expected foreigners, who led the market's rally at the beginning of this year, to have turned net sellers for the first time in six months.

The Topix index of all first section stocks rose 8.91 to 1,652.01 and the Nikkei 300 by 2.25 to 305.38. But losers led gainers by 530 to 514, with 191 issues unchanged.

In London the ISE/Nikkei 50 index put on 1.66 at 1,436.69.

Oil refiners and distributors were bought on steady crude oil prices. Nippon Oil rose Y14 to Y714 and Showa Shell Sekiyu added Y50 at Y1,130.

High-technology stocks, sold recently on sluggish US demand for semiconductors, gained ground. Industry analysts said that most stocks seemed to have discounted the earnings weakness expected during the next business year. "The projected profit decline at Tokyo Electron for the year to March 1998 has been discounted in its share price," said an analyst at a UK broker.

Hitachi moved ahead Y20 to Y1,060, Toshiba Y7 to Y784 and Sony Y10 to Y6,680.

Retail shares were higher on hopes of a continued recovery in personal consumption. Isetan gained Y30 at Y1,530 and Takashimaya Y10 at Y1,750.

Large steels and shipbuilders were up on buying by domestic investors. Nippon Steel rose Y3 to Y360, Kawasaki Steel firmed Y1 to Y383 and Mitsubishi Heavy Industries put on Y13 at Y915.

Speculative issues were actively bought. Copal, a camera shutter maker, advanced by its daily limit of Y106 to Y1,010, climbing for the sixth straight trading session. Nagasakiya, a supermarket operator, appreciated Y13 to Y800 and Totetsu Kogyo surged Y100 to Y797.

In Osaka, the OSE average dipped 43.82 to 22,936.78 in volume of 49.4m shares.

Roundup

A volatile session left BOMBAY up 1.6 per cent, on expectations that the right-wing Bharatiya Janata party would be able to form a coalition government. The BSE-30 index closed 59.76 higher at 3,810.13, up from an earlier low of 3,726.98.

Foreign institutional investors were selective buyers. SBI rose Rs12 or 4.3 per cent to Rs291.50 and Reliance by Rs7 or 2.8 per cent to Rs255.

HONG KONG was solidly firmer, with the Hang Seng index adding 71.88 at 10,817.88 in turnover that improved sharply to HK$4.3bn.

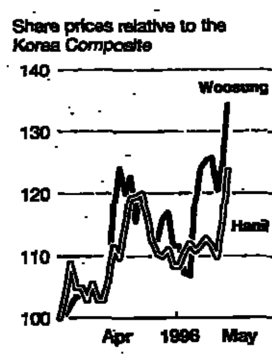
Analysts attributed the strength of the rally to Wall Street's overnight performance, although they cautioned that with Sino-US copyright protection talks, to avert the outbreak of a trade war today, still going on and the US consumer price index due later yesterday, many investors were still reluctant to commit themselves.

Banks again performed strongly on the US long bond yield's continued dip. HSBC gained 50 cents at HK$113.50, Hang Seng Bank HK$1.50 at HK$79.25 and Bank of East Asia 20 cents at HK$25.95.

Guangshen Railway, the twentieth mainland China company to be listed in Hong Kong, ended its maiden session at HK$3.125, against the issue price of HK$2.91, after a heavy day's trade.

SEOUL saw a sharply higher performance by shares involved in the Hanil Group's takeover of the debt-ridden Woosung Construction, on expectations that the deal would improve the management of the companies.

South Korea



Source: FT Extel

Hanil Synthetic Fiber, the *flagship of Hanil Group,* rose Won430 to its daily limit of Won7,740. Woosung, which ran into trouble in January, when it defaulted on Won16.9bn worth of promissory notes, also went limit-up at Won5,670, adding Won320.

The broad market finished lower as early rotational buying of small and medium-sized shares gave way to profit-taking, the composite index losing 14.58 at 964.15.

SYDNEY saw weakness in mining stocks offset by strength in the banks and engineers, and the All Ordinaries index rose 4.9 to 2,261.8.

Enthusiasm for banks was helped by improved first-half profits from St George Bank, steady at A$7.60, and Westpac, up 11 cents to A$6.02. National *Australia Bank closed 16 cents* higher at A$11.57, ahead of its results due on Thursday.

Australis Media, the pay television company, plummeted 9.5 cents or 21.2 per cent to 34.5 cents as reports circulated about the group's ability to secure funding.

BANGKOK continued to be uneasy as investors awaited a cabinet reshuffle. The SET index dipped 5.24 to 1,319.26 in turnover of Bt4.9bn.

STP & I, which made its debut in the building materials sector, was the most active issue and ended at Bt58, a premium against its initial public offering price of Bt48.

First-quarter results continued to be published, causing a number of stocks to falter. Union Asia Finance, for *instance, shed Bt6 to Bt101* as its quarterly net profits fell 25 per cent. Elsewhere, Bank of Ayudhya shed Bt3 to Bt139; its first quarter showed a disappointing 2 per cent increase over the same period last year.

SINGAPORE was dragged lower by leading property stocks, depressed by speculation that the government planned property credit restrictions. The Straits Times Industrial index slid 20.29 to 2,365.17.

Leading losers among properties included Wing Tai, down 12 cents to S$3.48, City Developments, 10 cents cheaper at S$11.80, and Malayan Credit, 7 cents lower at S$2.79.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MAY 13 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MAY 10 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (80)	207.67	-0.4	203.36	137.80	165.58	172.49	-0.1	4.00	208.59	203.11	138.90	165.36	172.64	212.18	162.68	173.86
Austria (25)	184.42	-0.6	180.59	122.37	147.04	146.95	0.0	1.91	185.51	180.65	123.54	147.07	146.99	199.28	168.11	186.63
Belgium (27)	206.92	0.5	202.62	137.30	164.98	160.86	1.0	4.11	205.89	200.49	137.11	163.23	159.23	215.81	186.06	193.56
Brazil (28)	165.75	2.2	162.31	109.98	132.15	303.32	2.2	2.14	162.25	157.99	108.05	128.63	296.89	170.25	123.97	143.86
Canada (98)	163.76	0.1	160.36	108.66	130.57	162.37	0.3	2.34	163.51	159.22	108.89	129.63	161.82	163.76	134.14	136.41
Denmark (30)	292.96	-0.8	286.90	194.40	233.58	236.06	-0.2	1.91	295.39	287.64	196.71	234.18	236.50	305.17	272.15	272.28
Finland (23)	185.31	-0.9	181.46	122.96	147.75	185.05	-0.1	2.70	187.10	182.19	124.59	148.32	185.33	276.11	171.73	199.74
France (97)	194.05	-0.8	190.02	128.76	154.71	157.88	-0.5	3.03	195.71	190.57	130.33	155.15	158.61	198.39	167.70	186.91
Germany (60)	165.60	0.3	162.17	109.88	132.03	132.03	0.9	1.88	165.02	160.69	109.89	130.83	130.83	174.38	149.49	151.84
Hong Kong (59)	422.20	1.3	413.44	280.14	336.62	419.35	1.3	3.37	416.92	405.98	277.64	330.53	414.06	451.19	348.81	365.95
Ireland (16)	277.48	-0.6	271.72	184.11	221.23	250.62	0.0	3.32	279.02	271.70	185.81	221.20	250.56	279.02	220.31	224.56
Italy (59)	82.88	0.5	81.16	54.99	66.08	96.26	0.2	2.27	82.46	80.30	54.91	65.37	96.08	83.87	67.22	77.85
Japan (481)	156.34	-0.6	153.10	103.74	124.65	103.74	-0.9	0.73	157.21	153.09	104.69	124.64	104.89	164.68	137.75	153.38
Malaysia (107)	569.46	0.3	557.64	377.85	454.03	546.06	0.4	1.59	567.65	552.75	378.01	450.01	543.86	585.09	425.77	513.63
Mexico (18)	1265.90	1.3	1239.63	839.96	1009.30	10313.42	1.3	1.37	1249.92	1217.12	832.36	990.90	10179.06	1313.61	781.99	1031.60
Netherland (19)	290.44	-0.6	284.41	192.72	231.57	227.22	0.0	3.16	292.18	284.51	194.57	231.63	227.23	293.82	237.16	242.09
New Zealand (15)	81.77	-0.3	80.07	54.26	65.20	63.13	0.2	4.24	82.00	79.85	54.61	65.01	63.01	85.49	76.26	82.10
Norway (33)	244.93	-0.3	239.85	162.52	195.28	218.94	0.2	2.37	245.74	239.29	163.64	194.81	218.50	255.75	215.04	219.27
Singapore (44)	431.31	0.5	422.35	286.18	343.88	279.32	0.5	1.36	429.02	417.77	285.70	340.12	277.84	465.21	355.81	398.06
South Africa (45)	358.96	0.5	351.51	238.18	286.20	342.86	0.6	2.07	357.09	347.72	237.80	283.09	340.68	437.76	338.91	353.15
Spain (37)	175.44	-0.2	171.80	116.41	139.88	169.78	0.1	3.27	175.79	171.18	117.07	139.36	169.69	179.85	141.19	144.78
Sweden (48)	344.61	-0.4	337.45	228.66	274.75	346.09	-0.3	2.32	345.94	336.87	230.37	274.26	347.30	352.28	250.83	253.27
Switzerland (39)	234.05	-0.3	229.19	155.30	186.61	181.41	0.2	1.82	234.82	228.66	156.37	186.16	181.10	252.34	184.11	186.24
Thailand (46)	183.94	-0.1	180.12	122.05	146.65	180.18	-0.1	1.82	184.18	179.35	122.65	146.02	180.44	193.96	146.74	166.48
United Kingdom (201)	230.25	-0.9	225.47	152.78	183.58	225.47	-0.4	4.09	232.40	226.30	154.76	184.24	226.30	237.43	208.12	210.84
USA (625)	269.75	1.4	264.15	178.99	215.07	269.75	1.4	2.18	265.97	258.99	177.12	210.85	265.97	268.75	212.45	215.23
Americas (770)	248.56	1.4	241.45	163.60	196.59	207.26	1.4	2.17	243.20	236.81	161.95	192.80	204.42	246.56	195.08	197.32
Europe (714)	206.68	-0.5	202.39	137.14	164.79	183.06	0.0	3.05	207.70	202.25	138.31	164.66	183.12	211.35	181.77	184.67
Nordic (134)	294.86	-0.5	288.54	195.51	234.93	260.06	-0.2	2.31	296.19	288.42	197.24	234.81	260.67	297.60	241.98	243.36
Pacific Basin (632)	169.44	-0.4	165.92	112.43	135.09	115.27	-0.6	1.16	170.06	165.60	113.25	134.82	116.00	177.01	148.86	162.97
Euro-Pacific (1546)	184.85	-0.4	181.01	122.65	147.38	140.92	-0.3	2.04	185.63	180.76	123.62	147.16	141.41	190.57	166.51	171.91
North America (724)	263.17	1.4	257.71	174.62	209.83	262.51	1.4	2.18	259.59	252.78	172.87	205.80	258.92	263.17	207.93	210.35
Europe Ex. UK (513)	188.75	-0.2	184.84	125.24	150.49	157.94	0.1	2.49	189.23	184.26	126.01	150.01	157.70	192.67	163.38	166.38
Pacific Ex. Japan (351)	291.20	0.4	285.15	193.22	232.17	250.15	0.6	2.95	289.94	282.33	193.08	229.86	248.74	296.68	243.59	255.74
World Ex. US (1736)	186.16	-0.4	182.30	123.52	148.43	145.45	-0.3	2.05	186.84	181.93	124.42	148.12	145.87	191.56	167.36	172.62
World Ex. UK (2160)	210.09	0.5	205.73	139.40	167.50	176.73	0.5	1.91	208.99	203.51	139.18	165.68	175.82	212.60	179.23	182.95
World Ex. Japan (1880)	242.84	0.7	237.80	161.13	193.61	230.76	0.8	2.52	241.19	234.86	160.61	191.21	228.81	242.93	201.25	204.15
The World Index (2361)	211.94	0.4	207.54	140.63	168.98	181.24	0.4	2.10	211.11	205.57	140.56	167.36	180.45	214.52	181.82	185.40

CONSTITUENT CHANGE WITH EFFECT 14/5/96: Deletion: Swiss Bank Corp. (Bearer) (Switzerland). Latest prices were unavailable for this edition.

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